Comprehensive Annual Financial Report

Connecting

massport Massachusetts Port Authority

Year Ended 6/30/2005

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Comprehensive Annual Financial Report

Introduction

massport

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November 17, 2005

To the Members of the Massachusetts Port Authority:

We are pleased to submit the Comprehensive Annual Financial Report ("CAFR") of the Massachusetts Port Authority (the "Authority") for the fiscal year ended June 30, 2005 ("fiscal year 2005"). This report was prepared by the Authority's Administration and Finance Department. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, this report fairly presents and discloses the Authority's financial position, results of operations, and cash flows as of and for the year ended June 30, 2005 in accordance with the requirements of accounting principles generally accepted in the United States of America ("GAAP"), except where use of accounting principles required under the Trust Agreement dated as of August 1, 1978, as amended (as so amended, the "1978 Trust Agreement"), between the Authority and U.S. Bank National Association (successor to State Street Bank and Trust Company), as trustee, is noted. Additional information intended to enable the reader to gain an understanding of the Authority's financial activities has been included within the CAFR.

The CAFR for fiscal year 2005 describes the Authority's financial performance during a year of continued recovery for the Authority and Boston-Logan International Airport ("Logan Airport" or the "Airport"), but uncertainty for the airline industry.

As shown in this CAFR, during fiscal year 2005, the Authority experienced growth, nearly recovering to the peak levels of fiscal year 2001, in the number of passengers using Logan Airport, while aviation operations grew at a more modest rate. Highlights of fiscal year 2005 included the opening of new Terminal A and continued progress on the other remaining elements of the Logan Airport capital program designed to accommodate this returning passenger traffic. The percentage of passengers carried by low cost carriers grew to over 20% of the passengers using the Airport, an increase of 46% over fiscal year 2004, while overall passenger traffic at the Airport grew by over 9%. However, the state of established, "legacy" air carriers continued to be uncertain, as United Air Lines, Inc. ("United") remained in bankruptcy, and in September 2005, both Delta Air Lines, Inc. ("Delta") and Northwest Airlines, Inc. ("Northwest") filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code ("Chapter 11"). Also in September 2005, US Airways emerged from bankruptcy protection and merged with America West Airlines. As a result, the Authority continued its efforts to diversify its revenues and to adhere to the principles of fiscal restraint. At the same time, the Authority continued its leadership role among U.S. airports and seaports in establishing new standards for transportation security. As evidence of this commitment, in September 2004, Logan Airport was the initial recipient of *Airport Security Report's* Exceptional Performance in Airport Security Award.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Massachusetts Port Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual

financial report continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The CAFR is presented in four sections. The Introductory Section, which is unaudited, contains this letter of transmittal, a narrative providing background with respect to the Authority and an organization chart of the Authority. The Financial Section consists of the Report of Independent Auditors and is followed by the required supplementary information, Management's Discussion and Analysis (MD&A) of the financial condition of the Authority, which is unaudited, ending with the Authority's audited Financial Statements for fiscal year 2005, with comparative information for fiscal year 2004, and the Notes to the Financial Statements. The Statistical Section, which is unaudited, includes selected financial and operational information, generally presented on a multi-year basis. The Statement of Annual Financial Information and Operating Data, which is unaudited, is prepared and submitted in accordance with the requirements of the Continuing Disclosure Agreement dated as of August 1, 1997 between the Authority and U.S. Bank National Association (successor to State Street Bank and Trust Company).

THE AUTHORITY

The Authority was created by and exists pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "Enabling Act") and is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Enabling Act and the 1978 Trust Agreement and the PFC Revenue Bond Trust Agreement, dated as of May 6, 1999, as amended (as so amended, the "PFC Trust Agreement") between the Authority and The Bank of New York, as trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use of revenues credited to such funds.

The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. Members are appointed for seven-year terms, with the term of one Member expiring on June 30 of each year. The Chairman of the Authority is appointed by the Governor of the Commonwealth. The management of the Authority and its operations are carried out by a staff headed by the Chief Executive Officer, who is appointed by and reports directly to the Members of the Authority. Under the Enabling Act, the Authority has general power, among other things, (i) to issue revenue bonds and to borrow money in anticipation thereof; (ii) to fix, revise, charge and collect tolls, rates, fees, rentals and charges for use of its projects; and (iii) to maintain, repair and operate and to extend, enlarge and improve its projects. The Authority has the power to acquire property by purchase or through the exercise of the right of eminent domain in certain circumstances. The Authority has no taxing power. The Authority has no stockholders or equity holders and the Authority's financial statements are not a component of the Commonwealth's financial statements.

The Authority's facilities include airport properties, comprising Logan Airport and Laurence G. Hanscom Field ("Hanscom Field"); the Maurice J. Tobin Memorial Bridge (the "Bridge"); and various port properties (the "Port"), located in Charlestown, South Boston, and East Boston. On January 15, 2000, the Authority also assumed operating responsibility for the Worcester Regional Airport pursuant to an operating agreement (the "Worcester OA") among the Authority, the City of Worcester, Massachusetts, and the Worcester Airport Commission.

Airport Properties

Logan Airport. Logan Airport is the principal source of the Authority's operating revenues, operating income and net assets. In fiscal year 2005, Logan Airport accounted for 80.0% of the Authority's operating revenues, calculated according to GAAP. In calendar year 2004, based upon total passenger volume, Logan Airport was the most active in New England, the 18th most active in the United States, and

the 34th most active in the world, according to the Airports Council International ("ACI"). The Airport has been classified as a large traffic hub by the Federal Aviation Administration ("FAA"). Airports are classified as large hubs if they enplane over 1% of the total passengers enplaned by domestic airlines in the United States. Enplaned plus deplaned passengers at the Airport for fiscal year 2005 totaled approximately 26.7 million, excluding general aviation. This represents a 9.3% increase from the 24.5 million passengers that used the Airport in fiscal year 2004, which was an 8.7% increase from the 22.5 million passengers that used the Airport in fiscal year 2003. The Authority derives revenues, in part, from activity-based sources, such as parking, rental car commissions and landing fees.

Airline Passenger Services. As of June 30, 2005, airline service at Logan Airport, both scheduled and non-scheduled, was provided by 78 airlines, including six U.S. major air carrier airlines, 33 other domestic carriers, 19 non-U.S. flag carriers, and 20 regional and commuter airlines. In fiscal year 2005, the two carriers that carried the greatest market share of passengers at the Airport, Delta (including Song and Delta Shuttle) and American Airlines, carried approximately 33.2% of the total passengers using the Airport. The seven carriers with the highest market shares - Delta, American Airlines, US Airways (including US Airways Shuttle), United, JetBlue Airways, Inc. ("JetBlue"), Northwest and Continental Airlines – carried approximately 69.0% of all passengers traveling through the Airport during fiscal year 2005. The largest market share for fiscal year 2005 was held by Delta, with approximately 17.0% of all passengers traveling through the Airport, followed by American Airlines, with 16.2%. During fiscal year 2005, the percentage of the Airport's passengers carried by Logan Airport's six low cost carriers - AirTran, America West, ATA, Independence Air, JetBlue, and Song - grew to 20.6% of the Airport's passengers, compared with 15.4% in fiscal year 2004. This group of carriers increased the number of passengers they carried at Logan Airport by 46.0% compared with their performance in fiscal year 2004, while passenger traffic at the Airport (excluding general aviation) as a whole grew by 9.3%. As further evidence of the growing presence of low cost carriers at the Airport, during fiscal year 2005, Song (a division of Delta) was Logan Airport's fifth largest carrier in terms of passenger share and JetBlue was sixth. As of June 30, 2005, Logan Airport had six low cost carriers providing low fare options, mirroring the diversity of all air carriers that has long characterized the Airport's air service market.

The airline industry, however, continues to face economic stress exacerbated by high fuel prices. As of November 1, 2005, three major airlines, Delta, Northwest, and United, are operating at Logan Airport under bankruptcy protection. On September 14, 2005, both Delta and Northwest filed for bankruptcy protection under Chapter 11. UAL Corp., parent of United, which filed for bankruptcy protection under Chapter 11 in December 2002, has not yet emerged from such protection. None of Delta, Northwest or United has rejected its executory agreements at Logan Airport, and each carrier has continued to operate at the Airport. On November 7, 2005, Independence Air (FLYi, Inc.) filed for bankruptcy protection under Chapter 11. ATA (ATA Airlines, Inc.) which filed for bankruptcy protection under Chapter 11 on October 26, 2004, ceased its operations at Logan Airport as of October 28, 2005. As noted above, US Airways emerged from bankruptcy protection effective September 27, 2005 and merged with America West Airlines; as part of its plan of reorganization, US Airways and its affiliates have assumed all leases and executory contracts relating to their operations at Logan Airport. At this time, the Authority does not expect that these air carrier bankruptcies will materially affect the results of the operation or financial condition of the Authority.

Cargo Airline Services. Logan Airport also plays an important role as a center for processing domestic and international air cargo. According to ACI, in calendar year 2004, the Airport ranked 18th in the nation in total air cargo volume. As of June 30, 2005, Logan Airport was served by eight all-cargo and small package/express carriers. During fiscal year 2005, the companies with the largest shares of enplaned and deplaned cargo at the Airport, based upon cargo tonnage, were Federal Express, United Parcel Service, American Airlines, Delta, ABX Air, Inc. (d/b/a Airborne Express) and British Airways. In fiscal year 2005, total combined cargo and mail volume was 796.3 million pounds. The total volume of air cargo

and mail handled at the Airport decreased in fiscal year 2005 by 1.6% compared to fiscal year 2004 and by an additional 1.1% compared to fiscal year 2003.

Hanscom Field. Hanscom Field is located principally in the town of Bedford, Massachusetts, approximately 15 miles northwest of Boston. The Authority anticipates that Hanscom Field will continue as a general aviation reliever to Logan Airport, as well as continue to develop as a niche commercial service market for regional aircraft. General aviation operations, including business related activity, charters, and light cargo, as well as flight training and recreational flying, currently represent the vast majority of activity at Hanscom Field.

Worcester Regional Airport. On January 15, 2000, the Authority assumed operating responsibility for the Worcester Regional Airport for a five year term pursuant to the Worcester OA, and in 2004, the Worcester OA was amended to extend the term through fiscal year 2007. Under the Worcester OA, the Authority pays a percentage of the net operating deficits (if any) for Worcester Regional Airport. For fiscal years 2005 and 2004, the Authority paid 100% of such deficit, plus certain of the Authority's direct expenses associated with operation of Worcester Regional Airport, totaling approximately $1.7 million and $2.2 million, respectively. In subsequent years, the percentage of the operating deficit for which the Authority will be responsible will decline from 100% in fiscal year 2005 to 85% in fiscal year 2006, and further to 68% in fiscal year 2007. It is anticipated under the Worcester OA that the Authority could assume title to Worcester Regional Airport. However, legislative action would be required in order for the Authority to take title to Worcester Regional Airport. Please refer to Note I of the Authority's financial statements for fiscal year 2005 for more detailed information.

Tobin Memorial Bridge

The Tobin Memorial Bridge, which is a part of U.S. Route 1, extends across the Mystic River from the Charlestown section of Boston to the City of Chelsea, and connects Boston's Central Artery and the Northeast Expressway. The Bridge carries an average of 26,600 in-bound vehicles per day. The Authority collects tolls from in-bound users of the Bridge. The toll for passenger cars was increased to $3.00 on April 4, 2004. Passenger cars using the "Fast Lane" electronic toll collection system at the Bridge receive a $0.50 discount on the toll. During fiscal year 2005, approximately 33.0% of passenger vehicles received this discount. The total number of vehicles using the Bridge in fiscal year 2005 decreased by approximately 11.5% to approximately 9.7 million from the 11.0 million in fiscal year 2004 and by an additional 2.9% from approximately 11.3 million in fiscal year 2003, while Bridge revenues increased by approximately 14.7% and 7.5%, respectively, to $27.6 million for fiscal year 2005 from $24.0 million in fiscal year 2004 and $22.3 million in fiscal year 2003, primarily due to the toll increases that went into effect on January 1, 2002 and April 4, 2004.

Port Properties

The Authority, through its Maritime Department, owns, manages, develops, operates, and markets the public cargo and passenger terminals of the Port. Boston is New England's major port and the only port in the region providing a full range of container handling, cruise ship, bulk, breakbulk, automobile processing, petroleum, and ship repair services. The Authority's maritime business activities include cargo handling (including containers, bulk materials, and automobiles), serving as both a point of embarkation and port of call destination for cruise ships, and leasing property. All container operations are consolidated at Conley Terminal in South Boston, and an automobile preparation, processing, and distribution facility is located at Moran Terminal in Charlestown. The total number of cruise passengers decreased in fiscal year 2005 by 4.0% compared to fiscal year 2004, and also decreased by 3.1% in fiscal year 2004, compared to fiscal year 2003. Port activity for containers increased 10.7% and 8.7% in fiscal years 2005 and 2004, respectively, over the prior fiscal years, primarily as a result of far-east service

provided by CKYH partners (COSCO, K-Line, Yang Ming and Hanjin), while automobiles processed decreased by 12.6% in fiscal year 2005 compared to the prior fiscal year, and by an additional 58.7% in fiscal year 2004 compared to fiscal year 2003 (reflecting the relocation of Volkswagen's importing business from Moran Terminal to Rhode Island). Bulk tonnage in fiscal year 2005 increased by 31.3% over fiscal year 2004, but decreased by 11.4% in fiscal year 2004 compared to fiscal year 2003.

LOCAL ECONOMY

The Boston area economy is an important factor in the Authority's operations, although the regional and national economies also play an important role, as passengers and cargo from across the United States and around the world travel to and from Boston via Logan Airport and the Port of Boston. The Commonwealth is home to a number of well-known and respected medical and educational institutions, providing relative stability to its economy. Tourism is also a significant component of the Commonwealth's economy.

The nation and state emerged from recession in 2003, but experienced continued weakness in the labor market in fiscal year 2004, which improved in fiscal year 2005. According to the Bureau of Labor Statistics, the Commonwealth's seasonally adjusted unemployment rate of 4.7% as of June 30, 2005, was below the national seasonally adjusted unemployment rate of 4.9% as of June 30, 2005, and was lower than the Commonwealth's seasonally adjusted unemployment rate of the prior year, which was 5.3% as of June 30, 2004.

As of June 30, 2005, local economic indices were showing a likelihood of economic growth in the near future. The Leading Economic Index for Massachusetts published by the University of Massachusetts Donahue Institute was positive for the twelve consecutive months through June 2005.

MAJOR INITIATIVES

Financial Results

During fiscal year 2005, the Authority focused its attention on increasing revenues, especially non-aeronautical or non-airline revenues. The $469.7 million in revenues (calculated according to the 1978 Trust Agreement, including operating grants) realized in fiscal year 2005 were 11.6% greater than the revenues realized in fiscal year 2004.

Revenues from landing fees in fiscal year 2005 were $69.8 million which was $5.2 million, or 7.0% below fiscal year 2004. This change in landing fee revenue reflected an increase in landed weights offset by a significant decrease in the landing fee, from $3.58 per thousand pounds of landed weight in fiscal year 2004 to $3.07 in fiscal year 2005 due to a decrease in expenses resulting from third party reimbursements. The increase in landed weights of 4.8% was driven principally by the growth in low fare carrier traffic. Terminal rents grew by $19.5 million or 29.4% to $85.7 million in fiscal year 2005, due to inclusion of the capital costs of the International Gateway, the operating costs of increased security and increased operating costs associated with the opening of new Terminal A on March 16, 2005. Although several air carriers operating at Logan Airport have filed for bankruptcy protection, the financial impact on the Authority of such bankruptcies has been minimal, as the majority of such air carriers continue to operate at the Airport while in bankruptcy, and due to the Authority's business practices, which include monitoring outstanding receivables and obtaining security deposits or other collateral. Parking fee revenue grew by $4.9 million to $93.0 million in fiscal year 2005, a growth rate of 5.5%. The increase in parking revenues was driven by an increase in the average ticket price per car, offset to some degree by a temporary loss of parking spaces due to a construction project in the Central Garage.

Revenues generated by port properties (combined revenues from the Maritime operations and Maritime real estate) grew to $58.2 million in fiscal year 2005, an increase of $8.6 million or 17.3% over fiscal year 2004. The seaport revenue growth reflected a 10.7% increase in container volume that was largely driven by the additional far-east traffic provided by COSCO, and a 31.3% increase in bulk tonnage associated with an increase from 26 cement vessels in fiscal year 2004 to 51 cement vessels in fiscal year 2005. The increase also reflect growth in real estate revenues, primarily reflecting rent collections from new commercial developments, such as the new United States headquarters of Canadian insurer Manulife. The Bridge's 14.7% revenue growth to $27.6 million reflected full year collections of a toll increase implemented in April 2004.

Cash collections during fiscal year 2005 were sufficient to cover all debt service deposits, make deposits to the Maintenance Reserve Fund and the Payment in Lieu of Taxes Fund and make cash deposits to the Improvement and Extension Fund, totaling $64.8 million for the year. The deposits to the Improvement and Extension Fund in fiscal year 2005 were $2.8 million less than the fiscal year 2004 deposits of $67.6 million, as a portion of the growth in revenues was used to offset the increase in the Maintenance Reserve deposits from 1% of the replacement cost of the Authority's assets or $21.2 million in fiscal year 2004 to 2% or $45.0 million in fiscal year 2005.

All of the Authority's general revenue bonds and PFC bonds are secured by debt service reserve funds that are fully funded with cash. At June 30, 2005, the debt service reserve funds for the bonds secured by the 1978 Trust Agreement held $108.9 million to support the approximately $76.8 million in annual debt service on the Authority's general revenue bonds (net of swap proceeds and capitalized interest); in fiscal year 2005, the Authority generated sufficient net revenues to achieve 2.60 coverage on these bonds. Similarly, at June 30, 2005, there was $25.6 million in the debt service reserve fund securing the PFC bonds to support the roughly $21.5 million in annual debt service on the PFC bonds; PFC debt coverage in fiscal year 2005 was 1.82.

The rating agencies have recognized the value of the Authority's fiscal restraint, revenue diversity and underlying market strengths. In conjunction with the issuance of the Authority's 2005 bond issue, Standard and Poor's ("S&P") upgraded the rating on the Authority's revenue bonds from A+ to AA-, and Fitch Ratings ("Fitch") upgraded the Authority's outlook from stable to positive. As of June 30, 2005, the Authority's revenue bonds were rated Aa3 with a stable outlook, AA- with a positive outlook, and AA- with a positive outlook by Moody's Investor's services, Inc. ("Moody's"), Fitch and S&P, respectively.

Accountability for Performance

Beginning in fiscal year 2003, under the direction of the CEO, Craig P. Coy, staff planned and implemented a comprehensive organizational realignment designed to achieve greater operating effectiveness and enhanced focus on financial performance throughout the Authority. The objectives of this realignment continue to drive staff efforts and to define financial and operational excellence.

The Authority has three operating departments - Aviation, Maritime and Bridge - each with clear profit/loss responsibility. The staff overseeing the operation of the Authority's facilities is charged with balancing financial performance with operational demands and customer service as well as forecasting the implications of any proposed capital programs or operating initiatives, and for the collection of accounts receivable.

All of the Authority's internal reporting metrics have been refined to support the highlighted accountability of the operating departments. The metrics are reviewed monthly, and quarterly performance meetings are held involving business units, finance staff and executive management. A

business plan has been developed that incorporates all operating and capital budget information as well as performance objectives.

Capital Program

The Authority's fiscal year 2005-2009 Capital Program (the "FY05-FY09 Capital Program") was approved by the Members of the Authority in February 2005 and includes total expenditures of $2.03 billion for ongoing projects and projects to be commenced during the five-year program period, including $856.0 million in projects that will only be executed if they are funded through third-party or non-recourse funding sources.

The FY05-FY09 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the Authority's goals of funding security initiatives and airfield operational enhancements, maximizing FAA and Transportation Security Administration ("TSA") grant receipts, securing and utilizing a $4.50 passenger facility charge ("PFC"), and avoiding increasing Airport rates and charges to levels that could lead to significant service reductions.

The FY05-FY09 Capital Program allocates $1.175 billion of Authority funds to key Authority priorities. These include security enhancements to the Airport's perimeter; the completion of the International Gateway and the Terminal Area Roadways, the last remaining Logan Modernization projects; the construction of infrastructure to support the Terminal A redevelopment undertaken by Delta which opened on March 16, 2005; major airfield maintenance and enhancements; and the renovation of the Central Garage, including the rebuilding of the garage's two lower levels and the addition of three new levels. The FY05-FY09 Capital Program also includes the acquisition of roadway segments from the Central Artery/Tunnel ("CA/T") Project, significant capital improvements to maintain and enhance Logan Airport's airfield, residential soundproofing in the communities neighboring Logan Airport, enhancements to the Maritime Properties and the Bridge and the maintenance and renewal of the Authority's other existing facilities.

The Authority expects to update the Capital Program for fiscal years 2006-2010 during the winter of 2006.

Financial Planning

An annual budget is prepared on the basis established by the 1978 Trust Agreement. The operating and capital budgets are reviewed on a non-GAAP basis. Budgeting control and evaluation are accomplished by comparing actual interim and annual results with the budget. The Authority prepares budget and non-GAAP actual financial statements on a monthly basis and prepares unaudited GAAP financial statements on a quarterly basis.

In May 2005, the Authority issued its Revenue Bonds, Series 2005-A and 2005-B and Revenue Refunding Bonds, Series 2005-C (the "2005 Bonds") in an aggregate principal amount of $453,750,000. The 2005-A Bonds and the 2005-B Bonds were issued to finance $200.0 million of the Authority's capital program. The 2005-C Bonds were issued to advance refund a portion of the Authority's Revenue Bonds, Series 1997-A, 1998-A and 1999-C. This advance refunding achieved a net present value savings of $9.77 million or 4.2%.

Also in fiscal year 2005, the Authority renewed its commercial paper program, increased the authorized amount to an aggregate principal amount not to exceed $139.0 million and entered into an amendment to

the Letter of Credit and Reimbursement Agreement with WestLB AG, New York Branch, extending the term of the letter of credit securing the commercial paper program to December 15, 2015.

If significant changes occur in the amounts available from expected funding sources, or if the costs of certain projects increase significantly, the Authority will reduce the scope of proposed projects, the overall capital program or both. For example, in October 2001, as part of its financial recovery plan, the Authority made significant reductions to the capital program then in effect. Then in June 2002, the Authority again adjusted its capital program in order to dedicate $146.0 million to the terminal retrofits required to support the TSA's in-line hold baggage screening.

Many of the commitments within the Authority's capital plan, such as the International Gateway project which is doubling the size of Terminal E and the repair and expansion of the Central Garage, have already been authorized by the Authority and extend over several years. Nevertheless, each project within its capital program is a separate "module" which the Authority approves individually along with a separate project budget. This permits the Authority to undertake the construction and financing of each of these additional projects independently of other capital projects. The Authority believes that the modular design of the capital program significantly increases its ability to make adjustments in capital spending when necessary.

Security

The Authority places a high priority on protecting the traveling public and ensuring the safety and security of its facilities. The Authority continues to take a leadership role in the development of transportation security solutions, and its security strategies, policies, and programs exceed the security measures required by the federal government. In recognition of the Authority's success in achieving heightened security levels, Logan Airport was the initial recipient of *Airport Security Report's* Exceptional Performance in Airport Security Award in September 2004. In the four years since September 11, 2001, the Authority has undertaken numerous security initiatives, including the terminal modifications required to house the TSA's 100% baggage screening system. This past fiscal year, in response to the increased standards for maritime security required under the federal Maritime Transportation Security Act, the Authority completed over one million dollars worth of security improvements to its port facilities and prepared and submitted to the United States Coast Guard formal Maritime Security Plans for each of the Authority's maritime facilities.

FINANCIAL INFORMATION

The financial information included in the Financial Section of this report presents the financial position of the Authority as of and for the fiscal year ended June 30, 2005. The concept of financial position focuses on existing resources and claims upon those resources.

Accounting System and Internal Audit

The Authority follows accounting principles generally accepted in the United States of America applicable to governmental enterprise funds. Accordingly, the Authority's financial statements are prepared on an accrual basis of accounting.

To provide the Authority with reasonable assurance that its financial resources are safeguarded against waste, loss, and misuse, and that reliable accounting and financial data are timely, complete, relevant, accurate, and fairly disclosed in reports, the Authority has established a system of internal controls. These internal controls provide the Authority with financial and accounting records from which financial statements are prepared. The Authority's Internal Audit function maintains oversight over the key areas

of the Authority's business and financial processes and controls, and reports directly to the Audit and Finance Committee of the Authority's Board.

Management has established and maintains a system of internal controls to provide reasonable assurance that material financial information required to be disclosed by the Authority in its CAFR is recorded, processed, summarized and reported to management in a timely manner. Management has reviewed the Authority's current controls and procedures within the past ninety days and believes that such controls and procedures provide reasonable assurance as to the integrity and accuracy of the financial statements, in all material respects. The concept of reasonable assurance is based on the recognition that the cost of controls should not exceed the relative benefit of such controls, and requires estimates and judgment by management.

Passenger Facility Charge

In 1993, the Authority's application to levy a passenger facility charge ("PFC") of $3.00 was approved by the FAA. The charge has been imposed on tickets sold on and after November 1, 1993. On September 2, 2005, the FAA issued a Record of Decision (the "2005 Record of Decision") increasing the PFC imposed on eligible enplaning passengers at Logan Airport to $4.50 effective October 1, 2005.

The 2005 Record of Decision also shortened the projected expiration date to February 1, 2011, increased the amount of PFCs that may be used to fund construction and financing costs of the International Gateway to $483,631,000, and decreased the collection authority for certain completed projects. Pursuant to the 2005 Record of Decision, the Authority is currently authorized to collect $865.1 million of PFCs in total.

The FAA has approved use of PFCs by the Authority to finance the Authority's Residential Sound Insulation Program, the Terminal E Modernization project, the Circulating Roadways project, the Elevated Pedestrian Walkways project, and the International Gateway project. Upon the issuance of the Authority's PFC Revenue Bonds, Series 1999A and 1999B (the "PFC Bonds") in May 1999, the Authority's PFCs were pledged pursuant to the PFC Trust Agreement to support the PFC Bonds and to fund construction of eligible portions of the projects described above. In the event that PFC Bond proceeds, PFCs and other funding sources are inadequate to meet anticipated project costs, projects may be deferred, altered, or canceled.

Historically, PFC revenues, exclusive of interest earnings, grew from $31.2 million in fiscal year 1995 to a peak of $36.8 million in fiscal year 2000. PFC revenues then dropped for three years in a row, to a low of $29.1 million in fiscal year 2003. In fiscal year 2005, PFC revenues, exclusive of interest earnings, rose for the second consecutive year, increasing by 7.5% over fiscal year 2004's level, to $35.3 million. Please refer to the PFC Revenue line of the nonoperating revenues set forth in Table S-1 in the Statistical Section for an historical statement of PFC revenues. From November 30, 1993 through June 30, 2005 the Authority has had cash collections of PFCs including interest earned thereon of $405.8 million.

Cash and Investment Management

Commencing July 1, 2004, the Authority implemented a new cash management system. Two banks were selected after a competitive process to provide, respectively, cash collections, and concentration and disbursement services.

All investments of Authority funds are made in accordance with the investment policy adopted in 2000 by the Members of the Authority, and the Policies and Procedures adopted by the Investment Oversight Committee in August 2003. On October 21, 2004, the Members of the Authority adopted a policy

regarding the non-speculative use and terms of financial hedges, such as interest rate swaps, forwards, caps and collars. The Authority is authorized by the 1978 Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in the Massachusetts Municipal Depository Trust (MMDT), in bank time deposits, and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's trustees or a custodian, but managed by the Authority.

In fiscal year 2005, the Authority implemented Statement number 40 issued by the Governmental Accounting Standards Board ("GASB"), "Deposit and Investment Risk Disclosures." Commencing in fiscal year 2005, the Authority's Financial Statements describe each of the following categories of risk associated with the Authority's investment portfolio and the steps that the Authority has taken to mitigate such risks: custodial credit risk, concentration credit risk, counterparty credit risk, and interest rate risk (as measured by effective duration). Please refer to Note C of the Authority's financial statements for fiscal year 2005 for more detailed information.

The Authority's investments in certificates of deposit and repurchase agreements are collateralized by obligations of the U.S. Government or agencies of the U.S. Government. The 1978 Trust Agreement and the PFC Trust Agreement require that securities underlying repurchase agreements continuously have a fair value at least equal to the cost of the agreement plus accrued interest. Certain cash held within debt service reserve funds and debt service accounts under the 1978 Trust Agreement and the PFC Trust Agreement are invested in long-term instruments.

An annual cash flow projection is developed for all capital projects and bond funds. Investment maturities are scheduled to comply with the goals of the Authority's investment policy, which are, in descending order of priority, (1) to preserve capital, (2) to provide liquidity to meet payment obligations and (3) to generate interest income.

Pension and Retirement Fund Operations

Chapter 487 of the Massachusetts Acts of 1978 ("C. 487") provided for the establishment of the Massachusetts Port Authority Employees' Retirement System (the "Plan"), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to 1978, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay-as-you-go" method. Pursuant to C. 487, the Authority employees' rights and benefits under the state plan were transferred to the Plan, and the Authority established a separate pension fund. The Plan is a single employer plan which provides retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries, and contingent annuitants. The Plan is a contributory defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to Plan participants. Total contributions from the Authority and employees to the Plan were $2.1 million and $6.3 million, respectively, for the year ended December 31, 2004.

Risk Management

Under the 1978 Trust Agreement, the Authority is required to maintain a risk management and insurance program that is substantially in compliance with the recommendations of a Risk Management Consultant. The Authority maintains a risk management program consisting of procedures for risk transfer where practical and purchasing of property and casualty insurance, including business interruption coverage, where the cost is reasonable. The Authority also self-insures certain risks, such as workers' compensation, for both the Authority's employees and employees involved in the Authority's Owner Controlled Insurance Program. Both of these self-insured programs are administered with the assistance of a third-

party administrator. The funding for deductibles and self-insured retentions is maintained in a dedicated self-insurance account. See Statistical Section Table S-4 for a summary of the Authority's coverages and insurance providers.

Contingent Liabilities

As of November 1, 2005, the Authority was aware of approximately 59 lawsuits pending against the Authority and other entities relating to the September 11th terrorist attacks. The statute of limitations for such lawsuits expired on September 11, 2004. The Aviation and Transportation Security Act, passed in November 2001, limits the liability of various entities, including airport sponsors such as the Authority, for the events of September 11th at the limit of each entity's liability insurance coverage. The Authority has liability insurance in effect to cover the incidents of September 11th in the amount of $500,000,000 per occurrence. Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims. Please refer to Note K of the Authority's financial statements for a description of material pending litigation.

OTHER INFORMATION

Independent Audit

Pursuant to the 1978 Trust Agreement, an audit of the Authority's financial statements for fiscal year 2005 has been completed by the Authority's independent auditors, PricewaterhouseCoopers LLP. Their report is included herein. Following issuance of the Authority's audited financial statements for fiscal year 2005, certain amounts were reclassified. In conjunction with the annual audit, PricewaterhouseCoopers LLP performs a Single Audit "Report on Expenditures of Federal Awards in Accordance with Office of Management and Budget ("OMB") Circular A-133 and on Passenger Facility Charges in Accordance with the Passenger Facility Charge Audit Guide for Public Agencies." The Authority's single audit for the fiscal year ended June 30, 2005, is in process. The Authority's single audit for the fiscal year ended June 30, 2004 noted no matters involving the internal control over the Authority's financial reporting and its operation that were considered to be material weaknesses.

Additional Information

For additional information concerning the Authority, please see the Authority's website, www.massport.com. Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Who We Are". The Authority's Annual PFC Statement of Financial Information and Operating Data for fiscal year 2005 (the "PFC Annual Update") will be filed with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") designated by the Security and Exchange Commission ("SEC") in satisfaction of the Authority's obligations under SEC Rule 15c2-12 with respect to certain bonds issued pursuant to the PFC Trust Agreement. Copies of the PFC Annual Update are also available from the Authority. Copies of the Annual Statements prepared pursuant to Rule 15c2-12 with respect to the Authority's bonds issued under both the 1978 Trust Agreement and the PFC Trust Agreement for years prior to fiscal year 2004 are available from the NRMSIRs and from the Authority. The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 426-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Chief Financial Officer, and Director of Administration and Finance/Secretary-Treasurer.

Acknowledgments

The completion of this report could not have been accomplished without the efficient and dedicated services of the entire Administration and Finance Department, the Communications Department, and the Legal Department. We would like to express our appreciation to all members of these departments who assisted and contributed to its preparation.

Very truly yours,

Craig P. Coy
Chief Executive Officer

Leslie A. Kirwan
Chief Financial Officer and
Director of Administration and Finance/Secretary-Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Massachusetts Port Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Nancy L. Zielke

President

Jeffrey P. Ehrlich

Executive Director

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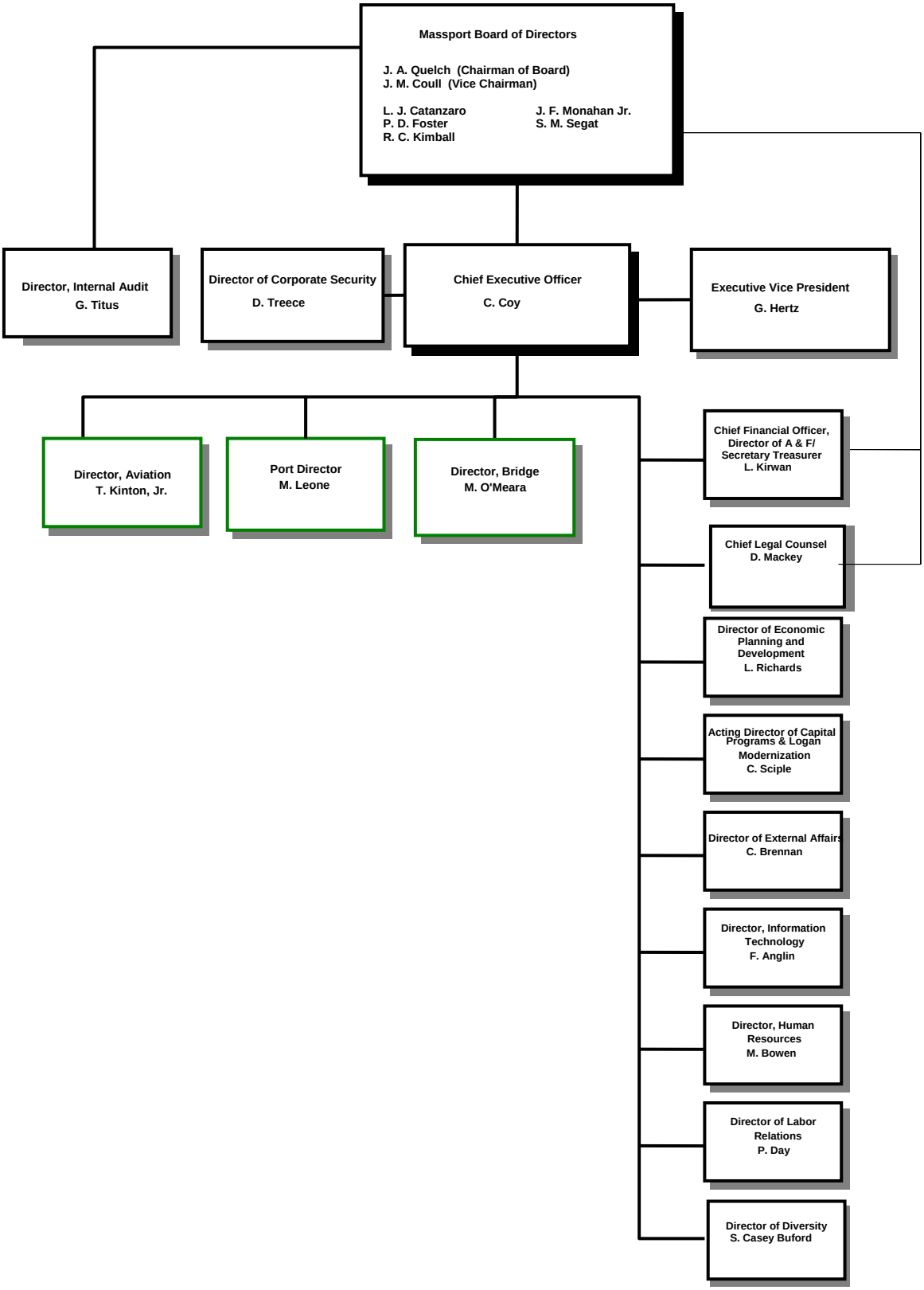
Massport Organization Chart



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Authority Board Members

The Authority consists of seven Members appointed by
the Governor of Massachusetts to staggered terms of seven years each.
Members serve without compensation.

John A. Quelch Chairman
James M. Coull Vice Chairman
Lois J. Catanzaro
Paul D. Foster
Ranch C. Kimball
John F. Monahan, Jr.
Susana M. Segat

Executive Staff

Craig P. Coy Chief Executive Officer
George K. Hertz Executive Vice President
Leslie A. Kirwan Chief Financial Officer and
Director of Administration and Finance/Secretary-Treasurer

Francis X. Anglin Director of Information Technology
Marie H. Bowen Director of Human Resources
Carole Brennan Director of External Affairs
Sandra Casey Buford Director of Diversity
Patricia A. Day Director of Labor Relations/Labor Counsel
Thomas J. Kinton, Jr. Director of Aviation
Michael A. Leone Port Director
David S. Mackey Chief Legal Counsel
Mary Jane O'Meara Bridge Director
Lowell L. Richards, III Director of Economic Planning & Development
Carl B. Sciple Acting Director of Capital Programs/Logan Modernization
Gail S. Titus Director of Internal Audit
Dennis P. Treece Director of Corporate Security

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Financial

Comprehensive Annual Financial Report

Financial

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Massachusetts Port Authority

Financial Statements with
Management's Discussion and Analysis
June 30, 2005 and 2004

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
125 High Street
Boston MA 02110
Telephone (617) 530 5000
Facsimile (617) 530 5001

Report of Independent Auditors

To the Members of the Massachusetts Port Authority:

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the Massachusetts Port Authority (the "Authority") (a public instrumentality of The Commonwealth of Massachusetts) at June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Management's Discussion and Analysis on pages 23 through 38 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on pages 82 to 85 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 30, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Introduction

The following discussion and analysis of the financial performance and activity of the Massachusetts Port Authority (the "Authority") is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Authority for the year ended June 30, 2005 ("fiscal year 2005" or "FY05") with selected comparative information for the year ended June 30, 2004 ("fiscal year 2004" or "FY04") and for the year ended June 30, 2003 ("fiscal year 2003" or "FY03"). The management of the Authority has prepared this discussion, and it should be read in conjunction with the financial statements and the notes thereto, which follow this section. Management has established and maintains controls and procedures designed to ensure that material information required to be disclosed by the Authority in its annual financial statements is recorded, processed, summarized and reported to management in a timely manner. Management has reviewed the Authority's current controls and procedures within the past ninety days and believes that such controls and procedures are adequate in order to record, process, summarize and report to management in a timely manner material information required to be disclosed by the Authority in its annual financial statements.

The Authority was created by and exists pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "Enabling Act"), and is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Enabling Act and the Trust Agreement dated as of August 1, 1978, as amended (as so amended, the "1978 Trust Agreement") between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee, and the PFC Revenue Bond Trust Agreement, dated as of May 6, 1999, as amended (as so amended, the "PFC Trust Agreement") between the Authority and The Bank of New York, as trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use of revenues credited to such funds. The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. The Authority's financial statements are not a component of the Commonwealth's financial statements.

The Authority's facilities include airport properties, consisting of Boston-Logan International Airport (the "Airport" or "Logan Airport") and Laurence G. Hanscom Field ("Hanscom Field"); the Maurice J. Tobin Memorial Bridge (the "Bridge"); and various port properties (the "Port") located in Charlestown, South Boston, and East Boston. The Authority also operates the Worcester Regional Airport pursuant to an operating agreement (the "Worcester OA") among the Authority and the City of Worcester, Massachusetts and the Worcester Airport Commission.

Logan Airport is the most active airport in New England and provides both international and domestic commercial service. It is the primary source of the Authority's revenues and net revenues. Hanscom Field is the region's premier general aviation airport and provides niche commercial service. Worcester Regional Airport serves the air transport needs of Massachusetts's second largest city. The Port of Boston is New England's major port and provides a full range of services, from cruise ship to container ship handling. The Bridge is one of Greater Boston's primary cross-harbor roadway connections and is a part of U.S. Route 1. In addition to operating its facilities, the Authority is committed to providing the modern transportation infrastructure necessary to support the needs of Boston, Massachusetts and New England.

The Authority is self-supporting and uses revenues from landing fees, parking fees, fees from terminal and other rentals, revenues from concessions, Bridge tolls, ground rents, and other fees and charges to fund operating expenses. The Authority has no taxing power and is not taxpayer funded. The Authority's capital program is funded by bonds and notes issued by the Authority, federal grants, and Authority revenues, including passenger facility charges ("PFCs"). The Authority's bonds are secured solely by the Authority's revenues.

The Financial Statements

The Authority's financial report includes three financial statements: the Balance Sheets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

The Balance Sheets demonstrate that the Authority's assets equal liabilities plus net assets. The net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. The component of net assets comprising invested in capital assets, net of related debt, includes restricted capital assets, is net of accumulated depreciation and reduced by the outstanding balances of any outstanding debt that is attributable to the acquisition, construction or improvement of those assets.

The Statements of Revenues, Expenses and Changes in Net Assets categorize revenues and expenses as either operating or non-operating based upon management's policy, as defined by the Enabling Act and the 1978 Trust Agreement, as to what constitutes the Authority's primary operations. Certain sources of the Authority's revenues, including PFCs, investment income and federal capital grants, are reported as non-operating revenues and their use is restricted. Operating revenue for the years ended June 30, 2005, 2004 and 2003 totaled $460.6, $415.0 million and $373.8 million, respectively. Operating expense for the years ended June 30, 2005, 2004 and 2003 totaled $420.6, $381.3 million and $348.4 million, respectively. In fiscal year 2005, the Authority had net non-operating expenses of $12.7 million comprised of revenues of $52.2 million and expenses of $64.9 million. In fiscal year 2004, the Authority realized net non-operating expenses of $15.7 million, comprised of revenues of $44.1 million and expenses of $59.8 million, and in fiscal year 2003, the Authority realized net non-operating expenses of $9.2 million, comprised of revenues of $40.6 million and expenses of $49.8 million. Capital grant revenues for the years ended June 30, 2005, 2004 and 2003 are $47.7 million, $90.1 million and $44.0 million, respectively.

The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments as resulting from operating activities, capital and related financing activities, and investing activities. Cash and cash equivalents on June 30, 2005 were $181.9 million. The comparable figures for June 30, 2004 and June 30, 2003 were $117.8 million and $209.5 million, respectively.

Authority's Management Highlights

Fiscal year 2005 saw the return of passengers at Logan International Airport to near pre-September 11, 2001 ("9/11") levels. In fiscal year 2005, a total of 26.9 million passengers traveled through Logan Airport, compared to 27.7 million in fiscal year 2000. Compared to the prior fiscal year, the number of passengers at Logan Airport increased by 9.4% in fiscal year 2005. An important area of management focus was readying new facilities for this upturn in passengers. Among the projects begun as part of Logan Modernization that came on line during fiscal year 2005 was the new Terminal A facility built and financed by Delta Air Lines, Inc. ("Delta"), new airport roadways, a new airport public mass transit station (built by the Massachusetts Bay Transportation Authority ("MBTA")), and Silver Line bus service (in collaboration with the MBTA). Construction also began on two other key projects during fiscal year 2005. Runway 14/32, a unidirectional runway with operations solely over Boston Harbor, finally passed the environmental and legal challenges to its construction, 30 years after being initially proposed, and construction commenced. Second, in view of the Airport's continuing parking needs, the major phase of construction commenced on the repair and expansion of the Central Garage, designed to add three floors consisting of 2,800 new spaces as well as improved customer amenities. A convenient new parking payment system, Exit Express, coupled with a preferred parker card and reservation system (Parking PASSport) was in the process of being installed at year end.

A major change underlying the growth in passengers was a significant shift to low-cost carriers, marking a distinct change from pre-September 11 conditions. After commencing operations at Logan Airport in January 2004, JetBlue expanded its market share rapidly, eclipsing the passenger levels of two of the mainline "legacy" carriers operating at Logan Airport. Low cost carrier growth was not confined to JetBlue, as the year saw growth by all six low cost carriers serving the Airport. Long known as predominantly a higher-end, business oriented airport, Logan Airport served approximately one million more low cost passengers in calendar year 2004 than Manchester, New Hampshire and Providence, Rhode Island's Green airports combined. In the spring of 2005, Massport signed a lease with JetBlue that will accommodate the airline's expected growth over the next several years. The change in the passenger mix and the impact of low cost carriers on Logan Airport, along with the continued financial difficulty faced by the airline industry in general, is a development that the Authority continues to monitor and is another reason that the Authority is working to maintain cost controls and fiscal discipline to avoid unreasonably burdening the airlines through airport rates and charges.

In fiscal year 2005 Authority staff enhanced and expanded its management of the operating units on a profit and loss center approach modeled on the corporate sector. A total of thirteen business lines have been identified among the three operating departments, with each line of business reporting key financial and operating metrics that are monitored and reviewed quarterly. Spending by the support departments is reviewed and approved by the operating departments.

In May of 2005 the Authority issued $453.75 million in revenue bonds and revenue refunding bonds. In preparation for the bond sale, staff made extensive presentations to all three bond rating agencies, highlighting the Authority's recent financial, operational and management developments. As a result, the Authority received a rating upgrade from A+ to AA- from Standard and Poor's ("S&P"), bringing this rating in line with the ratings of Aa3 and AA- issued by Moody's Investor Services ("Moody's") and Fitch, respectively.

Authority's Activity Highlights

Aviation Activity. Since the late fall of 2003, Logan Airport has seen steady improvement in passenger activity and aircraft operations. Aviation passenger activity at Logan Airport increased 9.4% to 26.9 million passengers (including general aviation) during fiscal year 2005. Passenger traffic at Logan totaled

24.6 million passengers for fiscal year 2004, an 8.6% increase from the 22.6 million passengers who used the Airport in fiscal year 2003. Aircraft operations (take offs and landings) increased 7.1 % in fiscal year 2005 from fiscal year 2004, which saw an increase of 1.2% from fiscal year 2003. Landed weights for fiscal year 2005 were 20,822,000 thousand pounds, an increase of 4.8% from fiscal year 2004 which in turn was 1.5% above fiscal year 2003. The Authority opened the new Terminal A at the Airport in March 2005 and Delta Air Lines relocated from Terminal C to Terminal A. Delta's move to Terminal A allowed JetBlue to relocate from Terminal E to Terminal C in May 2005, backfilling Delta's space and allowing the Authority to situate airlines in terminal facilities in a manner that accommodates expanding carrier service.

Maritime Activity. Activity and results at the Port of Boston also reflected growth. In fiscal year 2005, container volume reached 103,631 containers, a 10.7 % increase over fiscal year 2004 volume, which in turn was an 8.7 % increase over fiscal year 2003. This growth was primarily a result of new Far-East service provided by CKYH partners (COSCO, K-Line, Yang Ming and Hanjin). In fiscal year 2005, the Black Falcon Cruise Terminal handled 192,869 passengers on 95 ship calls. The total number of cruise passengers decreased in fiscal year 2005 by 4.0% compared to fiscal year 2004 which was 3.1% less than fiscal year 2003. Automobiles processed at the Port in fiscal year 2005 decreased by 12.6% from fiscal year 2004 which was 58.7% less than fiscal year 2003 reflecting the relocation of Volkswagen's importing business from the Boston Autoport to Rhode Island. In fiscal year 2005, bulk tonnage increased to 189,517 tons or 31.3% over fiscal year 2004, erasing the decline in tonnage in fiscal year 2004 of 11.4% from fiscal year 2003.

Bridge Activity. Tobin Bridge vehicle traffic began to improve in the early spring of 2004 as a result of the completion of key parts of the Central Artery/Tunnel Project, and then declined during fiscal year 2005 as expected as a result of the toll rate increase. For fiscal year 2005, Bridge traffic total vehicles were 9,723,213, a decrease of 11.5% from fiscal year 2004, which saw a 3.0% decrease from fiscal year 2003 activity, due to the toll increase and bridge reconstruction impacts. The Bridge carries an average of 31,000 in-bound and 45,000 out-bound vehicles per day. Since the Bridge deployed electronic toll collection devices ("ETC") in November of 1999, ETC usage has steadily improved to 42% overall usage and 52% during the rush hour period (6:00am to 9:30am).

Security Initiatives. The Authority has always had a strong security program, and since September 11, 2001, it has undertaken numerous new security initiatives including the terminal modifications required to house the Transportation Security Administration's 100% baggage screening system. In September 2004, Air Safety Week's Airport Security Report awarded Logan Airport its "Exceptional Performance in Airport Security Award".

On July 1st, 2004, the standards for maritime security increased dramatically. The Authority's new formal Maritime Security Plans for each of its maritime facilities were completed and submitted to the United States Coast Guard. As of June 30, 2005, the Authority has completed over a million dollars worth of capital improvements at its port facilities to improve all aspects of perimeter security, access control, emergency power and lighting, and vehicle penetration protection. A formal audit in 2005 by the Coast Guard found the Authority's maritime operations to be in full compliance with all aspects of the new security standards.

The Authority continues to place a priority on protecting the traveling public and ensuring that its facilities – Logan Airport, Hanscom Field, the Port and the Tobin Bridge – are safe and secure.

Condition of the Air Carriers

Growth in Low Fare Carriers. During fiscal year 2005, Logan Airport's six low cost carriers - AirTran, America West, ATA, Independence Air, JetBlue, and Song – grew to handle 20.6% of Logan Airport's passengers, compared with 15.4% in fiscal year 2004. This group of carriers increased the number of passengers they carried at Logan Airport by 46% compared with their performance in fiscal year 2004, while Logan passenger traffic as a whole grew by 9.4%. During fiscal year 2005 Song was Logan Airport's fifth largest carrier in terms of passenger share and JetBlue was sixth. Logan Airport now has six low cost carriers providing low fare options, mirroring the diversity of all air carriers that has long characterized the Airport's air service market.

Airline Bankruptcies. The economic stress facing the airline industry has been exacerbated by high fuel prices resulting from the impacts of Hurricane Katrina. The financial stress on the legacy air carriers, all of which operate at Logan Airport, continues with two major airlines, Delta and Northwest Airlines ("Northwest"), filing for bankruptcy protection on September 14, 2005. As of September 30, 2005, four major airlines are operating at Logan Airport under bankruptcy protection. In addition to Delta and Northwest, US Airways and United Air Lines ("United") are under bankruptcy protection, but have filed plans of reorganization with the bankruptcy courts. US Airways filed a Plan of Reorganization (the "Plan") with the bankruptcy court which was approved and made effective on September 27, 2005. The Plan is based on a merger with America West Airlines and, as part of the Plan, US Airways and its affiliates have assumed all leases and executory contracts relating to their operations at Logan Airport. On September 7, 2005, United filed a reorganization plan with the bankruptcy court. The Authority is analyzing United's reorganization plan to determine its effects on the Authority. Delta, Northwest, United and US Airways together accounted for 42.9% of enplanements at Logan Airport in fiscal year 2005 (Delta 17.0%, Northwest 4.8%, United 8.7% and US Airways 12.4%). In order to minimize any potential losses, the Authority actively monitors past due balances due to bankruptcy proceedings, aggressively pursues overdue amounts and bankruptcy claims, and includes an allowance for uncollectible debts in its landing fee rates.

Logan Airport Enplanements and Operations Activity for FY 2005, 2004 & 2003

	2005	2004	2003
Enplanements			
Domestic	11,251,713	10,195,648	9,343,669
International	2,129,374	2,040,079	1,906,562
General Aviation	60,687	43,234	47,072
Total Enplanements	13,441,774	12,278,961	11,297,303
Aircraft Operations (take-offs and landings)	413,337	386,021	381,425
Landed Weights (1,000 pounds)	20,822,190	19,863,570	19,576,341

Financial Highlights

The financial results for fiscal year 2005 showed significant improvement over the prior year. Operating income of $39.9 million was $6.2 million or 18.5% greater than the operating income of fiscal year 2004 and $14.5 million or 57.3% greater than that of fiscal year 2003. As of June 30, 2005, the Authority had net assets of $1,316.9 million, an increase of $75.0 million or 6.0% over fiscal year 2004 and of $183.0 million or 16.1% over fiscal year 2003. These results are attributed to a variety of factors, primarily the return of passengers to near pre-9/11 levels, as well as an increase in operations. The Authority carefully managed the revenues and costs within its control with an emphasis on increasing and diversifying non-airline revenues, including increasing ground transportation fees, and securing Federal Emergency Management Agency ("FEMA") reimbursements for snow removal. In addition, revenues were enhanced by a full year of the Bridge toll increase that was initially effective in April 2004. The exceedingly snowy winter, and the Authority's commitment to leadership in airport security, added to the pressure on expenses. Nonetheless, the expense controls introduced in the financial recovery plan for fiscal year 2002 and the focus on reducing administrative expenses were continued through fiscal year 2005, freeing up cash for these important commitments.

Summaries of revenues and expenses, calculated according to Generally Accepted Accounting Principles ("GAAP"), for fiscal year 2005, as compared to fiscal year 2004, and fiscal year 2004 as compared to fiscal year 2003, are set forth below. Federal grants were received during fiscal year 2004 for a portion of the incremental operating costs associated with enhanced security services. Unlike grants in aid of capital projects, which are treated as an increase in net assets, these payments are reflected as operating revenues.

The fiscal year 2005 operating revenue for the Authority was $460.6 million, an increase of $45.6 million when compared to fiscal year 2004 and $86.8 million when compared to fiscal year 2003. This result is largely attributable to increases in terminal rentals, landing fee revenue, parking and ground transportation revenue, and Maritime container fees. The data presented herein includes comparative information for fiscal years 2004 and 2003.

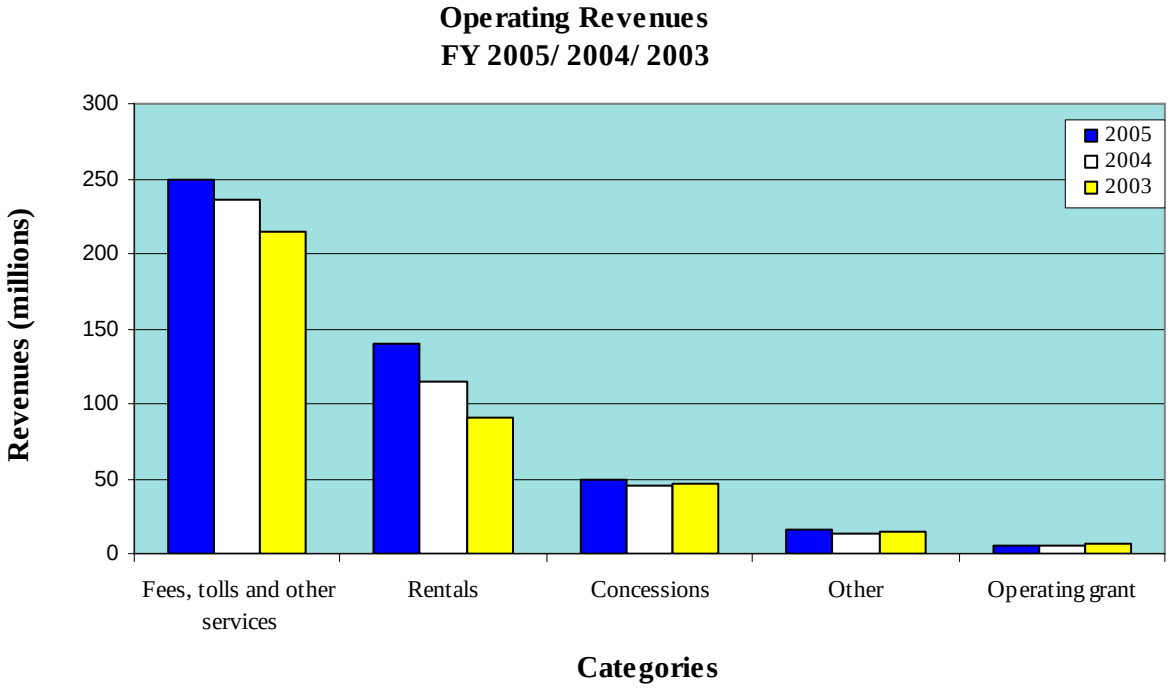
Operating Revenues (in millions)	**2005**	**2004**	**Increase (Decrease) from 2004**	**Percent of Increase (Decrease) from 2004**
Fees, tolls and other services	$ 249.3	$ 236.3	$ 13.0	6%
Rentals	139.7	115.2	24.5	21%
Concessions	49.9	45.1	4.8	11%
Other	16.1	13.5	2.6	19%
Operating grant	5.5	4.9	0.6	12%
Total	$ 460.6	$ 415.0	$ 45.6	11%

Column totals might not add due to rounding.

Operating Revenues (in millions)	2004	2003	Increase (Decrease) from 2003	Percent of Increase (Decrease) from 2003
Fees, tolls and other services	$ 236.3	$ 214.1	$ 22.2	10%
Rentals	115.2	90.4	24.8	27%
Concessions	45.1	46.8	(1.7)	(4%)
Other	13.5	15.1	(1.6)	(11%)
Operating grant	4.9	7.3	(2.4)	(33%)
Total	$ 415.0	$ 373.8	$ 41.2	11%

Column totals might not add due to rounding.

The following is a graphic illustration of operating revenues calculated in accordance with GAAP by source for the years ended June 30, 2005, 2004 and 2003:



The fiscal year 2005 operating expenses for the Authority were $420.6 million, an increase of $39.4 million over fiscal year 2004 and $72.2 million over fiscal year 2003. Expense growth during this period was driven by increased depreciation, resulting from placing several new major capital projects in service over the fiscal year; the operation and maintenance of these new facilities; extra expenses due to multiple snow storms and an increase in pension payments.

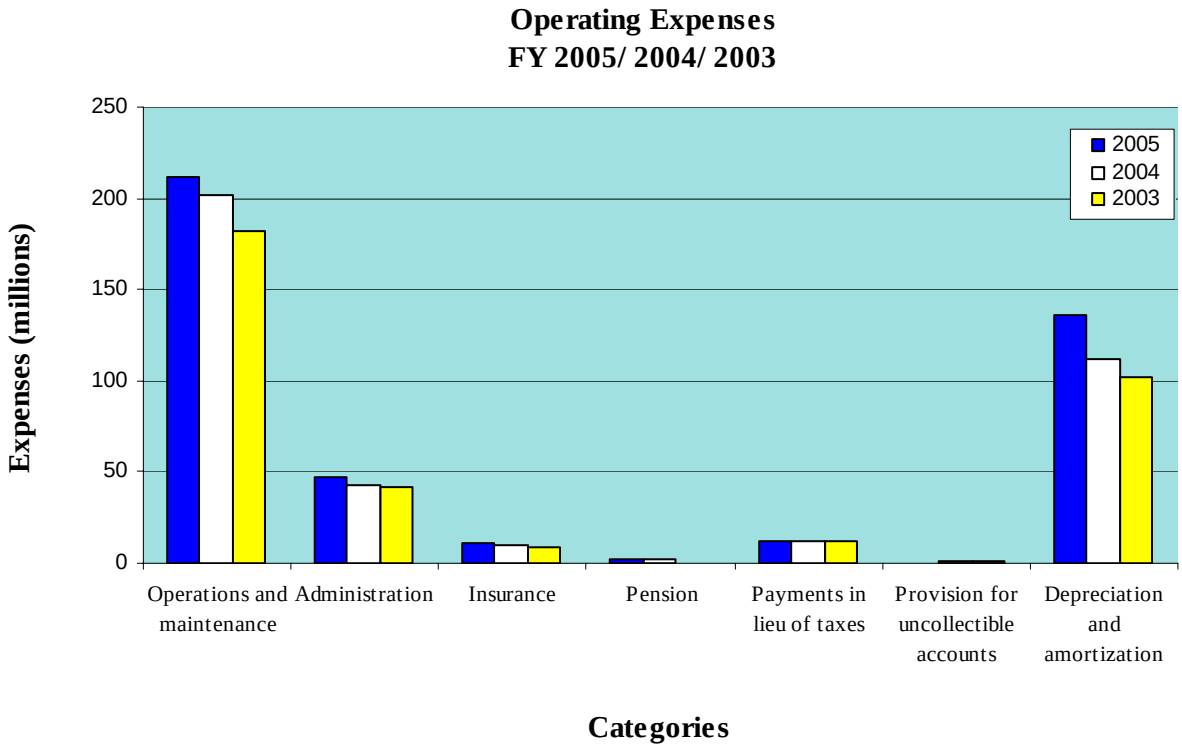
Total Operating Expenses (in millions)	2005	2004	Increase (Decrease) from 2004	Percent of Increase (Decrease) from 2004
Operations and maintenance	$ 211.9	$ 201.4	$ 10.5	5%
Administration	47.0	43.1	3.9	9%
Insurance	11.2	10.2	1.0	10%
Pension	2.1	1.8	0.3	17%
Payments in lieu of taxes	12.0	12.4	(0.4)	(3%)
Provision for uncollectible accounts	0.3	0.6	(0.3)	(50%)
Depreciation and amortization	136.0	111.7	24.3	22%
Total	$ 420.6	$ 381.3	$ 39.4	10%

Column totals might not add due to rounding.

Total Operating Expenses (in millions)	2004	2003	Increase (Decrease) from 2003	Percent of Increase (Decrease) from 2003
Operations and maintenance	$ 201.4	$ 181.8	$ 19.6	11%
Administration	43.1	41.8	1.3	3%
Insurance	10.2	8.7	1.5	17%
Pension	1.8	-	1.8	100%
Payments in lieu of taxes	12.4	12.6	(0.2)	(2%)
Provision for uncollectible accounts	0.6	1.2	(0.6)	(50%)
Depreciation and amortization	111.7	102.4	9.3	9%
Total	$ 381.3	$ 348.4	$ 32.9	9%

Column totals might not add due to rounding.

The following is a graphic illustration of the total operating expenses calculated in accordance with GAAP by type for the years ended June 30, 2005, 2004 and 2003:



Changes in Net Assets

The change in net assets is an indicator of whether the overall financial condition of the Authority has improved or declined during the year. The changes in net assets for the years ended June 30, 2005, 2004 and 2003 were increases of $75.0 million, $108.1 million and $60.2 million, respectively. Operating income for fiscal year 2005 of $39.9 million was $6.2 million or 18.5% greater than fiscal year 2004 and $14.5 million or 57.3% greater than fiscal year 2003. Non-operating revenues include PFCs and investment income. PFC revenues in fiscal year 2005 of $35.3 million were 7.5% greater than PFC revenues of $32.8 million in fiscal year 2004 and 21.4% greater than PFC revenues of $29.1 million in fiscal year 2003. Investment income increased to $13.5 million in fiscal year 2005 from $10.2 million in fiscal year 2004 and $11.5 million in fiscal year 2003 as interest rates rose, implementation of a new banking structure increased the yield on working capital, and the increased use of structured investments and other diversification strategies pursued under the new investment policy generated returns. Non-operating revenues for fiscal year 2005 also include receipt of a $3.4 million settlement of various claims. Non-operating expenses of $64.9 million increased by $5.0 million from 2004 and $15.1 million from 2003, primarily due to an increase in interest expense associated with an end to the capitalized interest on certain projects. The net non-operating revenues and expenses were a net expense of $12.7 million in fiscal year 2005 in contrast to a net expense of $15.7 million in fiscal year 2004 and a net expense of $9.2 million in fiscal year 2003. Capital grant revenue for fiscal year 2005 was $47.7 million, and includes a $20 million invoice to the TSA to cover a portion of the capital cost of the $146 million hold baggage system. Because of the timing of grants received from the TSA, the fiscal year 2005 capital grant reimbursements are 47.1% less than fiscal year 2004's capital grant revenue of $90.1 million and 8.4% greater than the fiscal year 2003 figure of $44.0 million.

The following is the Statement of Revenues, Expenses and Changes in Net Assets:

	(in millions)		
	2005	**2004**	**2003**
Operating Revenues:			
Fees, tolls and other services	$ 249.3	$ 236.3	$ 214.1
Rentals	139.7	115.2	90.4
Concessions	49.9	45.1	46.8
Other	16.1	13.5	15.1
Operating grants	5.5	4.9	7.3
Total Operating Revenues	460.6	415.0	373.8
Operating Expenses:			
Operations and maintenance	(211.9)	(201.4)	(181.8)
Administration	(47.0)	(43.1)	(41.8)
Insurance	(11.2)	(10.2)	(8.7)
Pension	(2.1)	(1.8)	-
Payments in lieu of taxes	(12.0)	(12.4)	(12.6)
Provision for uncollectible accounts	(0.3)	(0.6)	(1.2)
Depreciation and amortization	(136.0)	(111.7)	(102.4)
Total Operating Expenses	(420.6)	(381.3)	(348.4)
Operating Income	39.9	33.7	25.4
Non-Operating Revenues (Expenses):			
Passenger facility charges	35.3	32.8	29.1
Investment income	13.5	10.2	11.5
Settlement of claims	3.4	1.0	-
Other expense	(0.2)	(0.2)	(4.0)
Gain on sale of equipment	0.1	-	-
Interest expense	(64.6)	(59.7)	(45.8)
Total Non-Operating Revenues (Expenses)	(12.7)	(15.7)	(9.2)
Capital Grant Revenue	47.7 *	90.1 **	44.0
Change in Net Assets	$ 75.0	$ 108.1	$ 60.2

Column totals might not add due to rounding.

* Includes $20 million invoice to TSA.
** Includes $58 million received from TSA.

Balance Sheets

The balance sheets present the financial position of the Authority at the end of the fiscal year. The statement includes all assets and liabilities of the Authority. Net assets are the difference between total assets and total liabilities and are an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net assets at June 30, 2005, 2004 and 2003 is as follows:

	(in millions)		
	2005	**2004**	**2003**
Assets			
Current assets	$ 196.3	$ 154.5	$ 108.0
Non-current assets			
Capital assets, net	2,341.3	2,194.2	2,102.8
Other non-current assets	693.0	555.0	568.8
Total Assets	$ 3,230.6	$ 2,903.7	$ 2,779.5
Liabilities			
Current liabilities	$ 294.7	$ 218.1	$ 159.9
Non-current liabilities			
Long Term debt outstanding	1,572.5	1,385.4	1,428.7
Other non-current liabilities	46.5	58.4	57.1
Total Liabilities	1,913.7	1,661.8	1,645.7
Net Assets			
Invested in capital assets, net of debt	838.6	791.8	741.1
Restricted:			
Bond Funds	161.1	118.3	128.1
Project Funds	84.8	136.0	85.7
Passenger Facility Charges	48.8	32.9	39.4
Other Purposes	106.7	96.1	98.2
Total Restricted	401.4	383.3	351.4
Unrestricted	76.9	66.8	41.3
Total Net Assets	1,316.9	1,241.9	1,133.8
Total Liabilities and Net Assets	$ 3,230.6	$ 2,903.7	$ 2,779.5

Column totals might not add due to rounding.

The Authority ended fiscal year 2005 with assets of $3.2 billion, and with liabilities of $1.9 billion and net assets of $1.3 billion.

As of June 30, 2005 the Authority has investments in facilities of $2,341.3 million, including both fully completed facilities and construction-in-progress, an increase of $147.1 million from 2004 and $238.5 million from 2003. The Authority's capital assets are principally funded by the proceeds of revenue bonds, Authority revenues, PFCs and capital contributions from federal grants. Assets, other than capital assets which are stated at historical cost less an allowance for depreciation, and liabilities are recorded at cost.

Long-term debt outstanding increased by $187.1 million due to the issuance of the Authority's Revenue Bonds and Revenue Refunding Bonds, Series 2005-A, B & C (the "2005 Bonds"). In fiscal year 2005 the Authority increased the amount of commercial paper outstanding from $50 million to $70 million. Other liabilities increased by $39.7 million, principally related to accrued expenses for the acquisition of capital assets and accounts payable, and an increase in retainage.

Net assets, which represent the residual interest in the Authority's assets after liabilities are deducted, were $1,316.9 million at June 30, 2005, an increase of $75.0 million from fiscal year 2004 and $183.0 million from fiscal year 2003. Those net assets invested in capital assets, net of related debt, increased to $838.6 million, an increase of $46.7 million and $97.5 million over fiscal years 2004 and 2003, respectively. The Authority's restricted assets of $401.4 million as of June 30, 2005, are subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement. The remaining unrestricted assets of $76.9 million are deposited in the Improvement and Extension Fund and may be used for any lawful purpose of the Authority, and have been fully committed to support the Authority's capital program.

Cash and Investment Management

The Authority's cash and cash equivalents totaled $181.9 million on June 30, 2005, an increase of $64.2 million over the $117.8 million on June 30, 2004, but a decrease from $209.5 million on June 30, 2003. Cash and cash equivalents are considered highly liquid investments with an original maturity of thirty (30) days or less. In fiscal year 2005, the Authority issued its 2005 Bonds pursuant to the 1978 Trust Agreement, and applied a portion of the proceeds of the 2005 Bonds to fund acquisition and construction of certain capital assets and to advance refund certain previously issued bonds. Additional proceeds of the 2005 Bonds were invested, pending application of such proceeds to payment of construction costs of certain capital assets. Fiscal year 2004 saw a decrease in the purchases of investments, and a decrease in the proceeds from sales and maturities of investments, as cash was applied to the acquisition and construction of capital assets, which drew down balances available for investment.

The following summary shows the major sources and uses of cash:

	(in millions)		
	2005	**2004**	**2003**
Net cash provided by operating activities	$ 175.9	$ 152.6	$ 135.2
Net cash used for capital and related financing activities	(46.6)	(140.9)	(154.0)
Net cash provided by (used for) investing activities	(65.1)	(103.4)	136.3
Net increase/(decrease) in cash and cash equivalents	64.2	(91.7)	117.5
Cash and cash equivalents, beginning of year	117.8	209.5	92.0
Cash and cash equivalents, end of year	$ 181.9	$ 117.8	$ 209.5

Column totals might not add due to rounding.

Cash received during the year or required for the needs of the Authority was invested in demand deposits, the Massachusetts Municipal Depository Trust ("MMDT"), U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, certificates of deposit, and other permitted investments under the 1978 Trust Agreement or the PFC Trust Agreement. During fiscal 2005, the Authority's daily average portfolio balance of funds held under the 1978 Trust Agreement was $477.0 million and the average yield on investments was 2.72%. During fiscal 2005, the Authority's average portfolio balance of funds held under the PFC Trust Agreement, was $42.5 million and the average yield on investments was 4.37%. Certain funds held as debt service reserves under the PFC Trust

Agreement are invested in forward delivery agreements. The PFC debt service funds are invested until July 1, 2015 and the PFC debt service reserve funds are invested until June 28, 2017. An annual cash flow projection for capital projects is developed for all bond proceeds as well as for the Maintenance Reserve and Improvement & Extension Funds and the PFC Capital Fund, and investments are matched to optimize investment income after ensuring cash is available for capital project expenses and maintaining the principal value of each fund.

All investments must be made pursuant to the investment policy adopted in 2000 by the Members of the Authority. The majority of the Authority's funds, including investments, are held by the Trustees under the 1978 Trust Agreement or the PFC Trust Agreement, respectively, or custodians for such Trustees, and are invested at the direction of the Authority. An investment committee meets monthly to review projected cash flow needs and investments, and an investment oversight committee meets quarterly to review the Authority's existing portfolios for compliance with the investment policy and comparability with external benchmarks, and to revise the existing investment strategies for the Authority's various funds, if necessary.

The Authority's Capital Program

Fiscal Year 2005-Fiscal Year 2009 Capital Program. On February 16, 2005, the Members of the Authority approved its capital program for fiscal years 2005 through 2009 (the "FY05-FY09 Capital Program"). The FY05-FY09 Capital Program includes total expenditures of $2.03 billion for ongoing projects and projects to be commenced during the five-year program period, including $856 million in projects that will only be executed if they are funded through third-party or non-recourse funding sources. This program includes funding for a number of security initiatives, including improvements to perimeter security at Logan Airport.

The FY05-FY09 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the Authority's goals of funding security initiatives and airfield operation enhancements, maximizing FAA and TSA grant receipts, securing and utilizing a $4.50 PFC, and avoiding increasing Airport rates and charges to levels that could lead to significant service reductions. In 1995, the Authority embarked on a major capital program to repair, modernize and revitalize the physical plant at Logan Airport and to improve the infrastructure at each of the Authority's facilities. Continuing the efforts to renew Logan Airport and the Authority's other facilities, the FY05-FY09 Capital Program allocates $1.175 billion of Authority funding to important initiatives to address the current security challenges facing the aviation industry, to maintain and enhance the public airfield, to add significant improvements to the public parking facilities at the Airport, and to upgrade each of the Authority's facilities generally. At the same time, the Authority continues to strive to avoid or minimize adverse local and regional impacts associated with operations at the Airport and the Authority's other facilities.

During fiscal year 2005, the Authority expended $236.8 million on its on-going capital program. Major projects substantially completed in fiscal year 2005 include the reconstruction of Terminal A, and the overlay of Taxiway A. In fiscal year 2005 work commenced on Runway 14/32, the new airfield access control system and other boundary security measures at Logan Airport, the Terminal B passenger checkpoint consolidation, the installation of Engineered Material Arresting System (EMAS) at the end of 4/22R and the overlay of the upper deck at the Tobin Bridge. Major on-going projects that are scheduled for completion in fiscal year 2006 or beyond at the Airport include the renovation of the Central Garage at the Airport, which includes completely rebuilding the three lower floors of that garage, renovating the next two floors, and adding three new levels to that structure; the International Gateway; the enhanced security program; residential soundproofing in nearby communities and certain Terminal Area Roadway improvements.

Capital Financing and Debt Management

As of June 30, 2005, outstanding obligations of the Authority issued pursuant to the 1978 Trust Agreement and the PFC Trust Agreement totaled approximately $1.6 billion including the Subordinated Revenue Bonds but excluding commercial paper. (Special facilities revenue bonds issued on behalf of and payable by certain borrowers are excluded because they are not the general obligations of the Authority.) In fiscal year 2005, the total amount deposited to pay debt service on obligations issued pursuant to the 1978 Trust Agreement (not including subordinate obligations) was an aggregate of principal and interest of $83.3 million, while the total amount deposited to pay debt service on bonds issued pursuant to the PFC Trust Agreement was an aggregate of principal and interest of $21.5 million.

In fiscal year 2005, the Authority secured a $15 million FAA grant, that was the first grant received under a Letter of Intent in the amount of $90.8 million awarded in fiscal year 2004 by the FAA to provide grants in aid of the Authority's airside improvement program spread over an eight-year period. Other key financial accomplishments in fiscal year 2005 include the issuance of the 2005 Bonds; a restatement of the commercial paper program, and an increase in the outstanding principal amount of commercial paper notes to $70 million; and the bidding and completion of a seven-year Forward Delivery Agreement for the Debt Service Reserve Funds for the Series 1998A, 1998B, 2003A, 2003B and 2003C Bonds that will yield 4.202%.

Credit Ratings:
The Authority's revenue bonds are rated AA- by Fitch, Aa3 by Moody's and AA- by S&P. When the Authority issued the 2005 Bonds in May 2005, the Fitch and Moody's ratings were confirmed and the S&P rating was upgraded from A+ to AA-. Fitch upgraded the Authority's outlook from stable to positive. In August 2004, Moody's raised the outlook on the Authority's bonds to stable. The Authority's PFC Revenue Bonds are insured by Financial Security Assurance Inc. and are rated AAA, Aaa and AAA, as insured, by each of Fitch, Moody's, and S&P, respectively. The Authority's Commercial Paper Notes are rated A-1+ and P-1 by S&P and Moody's, respectively, based on credit enhancement provided by WestLB AG.

Authority Obligations:
The following is a summary of outstanding obligations issued by the Authority as of June 30, 2005:

2005 Bond Issue and Commercial Paper Program
On May 5, 2005, the Authority issued the 2005 Bonds in a principal amount of $453,750,000. The 2005-A Bonds and the 2005-B Bonds were issued to finance a portion of the Authority's capital program. The 2005-C Bonds were issued to advance refund a portion of the Authority's Revenue Bonds, Series 1997-A, 1998-A and 1999-C Bonds. This advance refunding achieved a net present value savings of $9.77 million or 4.2%. While debt service for fiscal year 2006 will increase by $406,000, the annual savings for fiscal years 2007-2029 will be approximately $575,000. The Official Statement relating to the Authority's 2005 Bonds is available from the Authority or by accessing the Authority's website.

On March 10, 2005, the Authority renewed its commercial paper program in an aggregate principal amount not to exceed $139 million and entered into an amendment to the Letter of Credit and Reimbursement Agreement with WestLB AG, New York Branch, that provides security for the commercial paper program, extending the term to December 15, 2015.

Revenue Bonds

- The Authority had 16 series of Revenue Bonds (including Revenue Refunding Bonds) outstanding pursuant to the 1978 Trust Agreement in a total principal amount of $1.31 billion.
- While 14 of these series are fixed rate debt, the 2003-B and the 2005-B Bonds are auction rate securities. The 2003-B Bonds are subject to the Alternative Minimum Tax, are insured by MBIA, and Citigroup and Lehman Brothers serve as Broker Dealers for the auctions that are held every 35 days. (MBIA also insures the fixed rate 2003-A and 2003-C Bonds.) The 2005-B Bonds are subject to the Alternative Minimum Tax, are insured by Ambac, and Goldman Sachs serves as Broker Dealer for the auctions that are held every 7 days. (Ambac also insures the fixed rate 2005-A and 2005-C Bonds.)
- The Authority had six series of Subordinated Revenue Bonds, in the aggregate principal amount of $74 million, outstanding pursuant to the 1978 Trust Agreement.

Commercial Paper

- The total amount of Commercial Paper Notes outstanding pursuant to the 1978 Trust Agreement was $70 million as of June 30, 2005.
- The total amount of Commercial Paper Notes authorized was up to $139 million.
- The Authority's Commercial Paper Notes are secured by a letter of credit issued by West LB AG in a principal amount of up to $139 million.

PFC Revenue Bonds

- The Authority has issued two series of PFC Revenue Bonds pursuant to the PFC Trust Agreement, with $211.7 million outstanding as of June 30, 2005. The PFC Revenue Bonds are insured by Financial Security Assurance, Inc.

Special Facilities Revenue Bonds

- As of June 30, 2005, the Authority had approximately $798.2 million of special facilities revenue bonds outstanding, in nine separate series of bonds.
- As a result of the bankruptcy of United Air Lines, Inc., the trustee for the Authority's Special Facilities Revenue Bonds (United Air Lines, Inc., Project), Series 1999A has declared an event of default with respect to such bonds.
- The principal of and interest on each series of the special facilities revenue bonds issued by the Authority are special obligations of the Authority, payable solely from the sources of payment and to the extent provided in the resolutions establishing and authorizing the issuance of such bonds. The special facilities revenue bonds are not and shall never be general obligations of the Authority or of the Commonwealth or of any political subdivision thereof.

Other Obligations

- From time to time the Authority has guaranteed or provided other credit support for debt obligations issued by or on behalf of its tenants.
- The Authority entered into an interest rate swap agreement, effective July 1, 2002, with Citigroup Financial Products ("Citigroup"), which is guaranteed by Citigroup Global Market Holding, Inc., in the notional amount of $100 million pursuant to which the Authority will receive 4.05% and pay Citigroup the Bond Market Association index on the notional amount for the period from July 1, 2002 through June 30, 2012. The Authority is treating this transaction as a synthetic variable rate refunding of $56 million of its Revenue Bonds, Series 1999-D and $44 million of its Revenue Bonds, Series 1998-E. In fiscal year 2005, Massport received four quarterly net payments from the swap counterparty totaling $2,606,512. $1,459,647 was applied to the debt service for the 1999-D Bonds and $1,146,865 was applied to the debt service for the 1998-E Bonds.

The Authority, through the 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a coverage ratio significantly higher than its requirement. As of June 30, 2005, 2004 and 2003, respectively, the Authority's debt service coverage under the 1978 Trust Agreement was 2.60, 2.20 and 2.02. As of June 30, 2005, 2004 and 2003, the Authority's PFC debt service coverage under the PFC Trust Agreement was 1.82, 1.62 and 1.69, respectively.

Contacting the Authority's Financial Management

For additional information concerning the Authority, please see the Authority's website, www.massport.com. Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Who We Are". The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 426-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Director of Administration and Finance and Secretary-Treasurer.

Massachusetts Port Authority
Balance Sheets
June 30, 2005 and 2004
(In Thousands)

ASSETS	**2005**	**2004**
CURRENT ASSETS		
Cash and cash equivalents	$ 42,715	$ 43,136
Investments	73,975	63,383
Accounts receivable – net of allowance for doubtful accounts of $11,470 and $11,825 as of June 30, 2005 and 2004, respectively	29,328	30,107
Accounts receivable-grants	43,705	13,446
Prepaid expenses and other assets	6,547	4,386
Total current assets	196,270	154,458
NONCURRENT ASSETS		
Assets whose use is limited		
Cash and cash equivalents	139,231	74,624
Investments	483,331	414,091
Prepaid expenses and other assets	26,741	21,066
Investment in joint venture	3,637	3,650
Intangible assets, net	40,093	41,635
Capital Assets		
Completed facilities	3,505,003	3,181,078
Less accumulated depreciation	(1,298,797)	(1,176,266)
	2,206,206	2,004,812
Construction in progress	135,052	189,393
Capital assets, net	2,341,258	2,194,205
Total noncurrent assets	3,034,291	2,749,271
TOTAL ASSETS	$ 3,230,561	$ 2,903,729

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Balance Sheets, Continued
June 30, 2005 and 2004
(In Thousands)

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 136,751	$ 81,031
Compensated absences	1,061	947
Retainage	3,488	3,676
Current maturities of funded debt	47,017	41,905
Commercial Paper Notes	70,000	50,000
Accrued interest payable	30,746	35,076
Deferred income	5,635	5,420
Total current liabilities	294,698	218,055
NON-CURRENT LIABILITIES		
Accrued expenses	4,022	21,352
Compensated absences	20,155	18,007
Retainage	8,756	5,939
Funded debt	1,572,473	1,385,388
Deferred income	13,582	13,091
Total noncurrent liabilities	1,618,988	1,443,777
Total liabilities	1,913,686	1,661,832
NET ASSETS		
Invested in capital assets, net of related debt	838,568	791,836
Restricted:		
Bond Funds	161,112	118,320
Project Funds	84,831	136,037
Passenger Facility Charges	48,756	32,880
Other Purposes	106,678	96,058
Total Restricted	401,377	383,295
Unrestricted	76,930	66,766
Total net assets	1,316,875	1,241,897
TOTAL LIABILITIES AND NET ASSETS	$ 3,230,561	$ 2,903,729

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2005 and 2004
(In Thousands)

	2005	2004
Operating revenues:		
Fees, tolls and other services	$ 249,323	$ 236,287
Rentals	139,731	115,225
Concessions	49,923	45,054
Other	16,147	13,539
Operating grants	5,454	4,859
Total operating revenues	460,578	414,964
Operating expenses:		
Operations and maintenance	211,905	201,394
Administration	47,023	43,094
Insurance	11,221	10,234
Pension	2,141	1,834
Payments in lieu of taxes	12,028	12,419
Provision for uncollectible accounts	320	573
Depreciation and amortization	136,007	111,726
Total operating expenses	420,645	381,274
Operating income	39,933	33,690
Nonoperating revenues (expenses):		
Passenger facility charges	35,316	32,845
Investment income	13,456	10,239
Settlement of claims	3,354	1,000
Other expenses	(230)	(176)
Gain on sale of equipment	60	9
Interest expense	(64,620)	(59,665)
Total nonoperating revenues (expenses)	(12,664)	(15,748)
Income before capital grant revenue	27,269	17,942
Capital grant revenue	47,709	90,115
Increase in net assets	74,978	108,057
Net assets, beginning of year	1,241,897	1,133,840
Net assets, end of year	$ 1,316,875	$ 1,241,897

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004
(In Thousands)

	2005	2004
Cash flows from operating activities:		
Cash received from customers and operating grants	$ 459,795	$ 412,433
Cash payments:		
To vendors for goods and services	(174,272)	(157,906)
To employees for services	(97,861)	(89,531)
Payments in lieu of taxes	(11,728)	(12,419)
Net cash provided by operating activities	175,934	152,577
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(236,831)	(168,526)
Proceeds from sale of bonds	478,203	-
Principal Paid on refunded debt	(248,079)	-
Principal paid on funded debt (other than commercial paper)	(43,080)	(34,020)
Interest paid on funded debt	(74,837)	(63,980)
Proceeds from commercial paper financing	20,000	11,000
Principal paid on commercial paper	-	(3,000)
Proceeds from passenger facility charges	35,687	32,080
Capital Grants	18,897	84,493
Settlement of claims	3,354	1,000
Proceeds from sale of equipment	60	48
Net cash used for capital and related financing activities	(46,626)	(140,905)
Cash flows from investing activities:		
Purchases of investments	(1,729,917)	(1,582,573)
Proceeds from sales and maturities of investments	1,650,472	1,468,307
Interest earned on investments	14,323	10,861
Net cash provided by (used for) investing activities	(65,122)	(103,405)
Net increase/(decrease) in cash and cash equivalents	64,186	(91,733)
Cash and cash equivalents, beginning of year	117,760	209,493
Cash and cash equivalents, end of year	$ 181,946	$ 117,760

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Cash Flows, Continued
For the Years Ended June 30, 2005 and 2004
(In Thousands)

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 39,933	$ 33,690
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	136,007	111,726
Provision for uncollectible accounts	320	573
Changes in assets and liabilities:		
Accounts receivable	88	(6,513)
Prepayments and other assets	(2,930)	1,633
Accounts payable and accrued expenses	(451)	3,512
Accrued compensated absences	2,260	3,570
Deferred income	707	4,386
Total adjustments	136,001	118,887
Net cash provided by operating activities	$ 175,934	$ 152,577

The accompanying notes are an integral part of these financial statements.

The Massachusetts Port Authority (the "Authority") is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") created and existing pursuant to Chapter 465 of the Acts of 1956, as amended, (the "Enabling Act"). The Authority controls, operates and manages Boston-Logan International Airport ("Logan Airport"), Laurence G. Hanscom Field, Maurice J. Tobin Memorial Bridge ("Bridge"), the Port of Boston and other facilities in the Port of Boston. The Authority has no stockholders or equity holders and the Authority's financial statements are not a component of the Commonwealth's financial statements. The provisions of the Enabling Act and the Trust Agreement, dated as of August 1, 1978 as amended (the "1978 Trust Agreement"), between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee (the "Trustee"), and the PFC Revenue Bond Trust Agreement dated May 6, 1999, as amended (the "PFC Trust Agreement"), between the Authority and The Bank of New York, as trustee (the "PFC Trustee"), govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use and investment of such revenues credited to the various funds.

A. Summary of Significant Accounting Policies

These financial statements have been prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America.

Commencing on July 1, 1995, the Authority elected to apply all GASB and Financial Accounting Standards Board ("FASB") pronouncements issued before November 30, 1989, under the provisions of GASB Statement No. 20. Accordingly, FASB Statements issued after FASB No. 104 are not incorporated in the Authority's financial statements.

During 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34") as amended. The Authority follows the "business type" activity requirements of GASB 34 which requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  Nonexpendable – Net assets subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended June 30, 2005 and 2004, the Authority did not have nonexpendable net assets.

  Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets included the construction funds held pursuant to the 1978 Trust Agreement and the PFC Trust Agreement.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Members of the Authority or may otherwise be limited by contractual agreements with outside parties.

A. Summary of Significant Accounting Policies, continued

New Accounting Pronouncements

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for the Authority's fiscal year beginning July 1, 2004. Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. The Authority adopted this statement for fiscal year 2005.

In November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the Authority's fiscal year beginning July 1, 2005. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. The Authority is currently evaluating the effect that Statement No. 42 will have on its financial statements.

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistic Section*, effective for the Authority's fiscal year beginning July 1, 2005. This Statement amends the portions of National Council on Governmental Accounting ("NCGA") Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the financial statements, and required supplementary information to assess the economic condition of a government. The Authority does not believe this Statement will have a material effect on its financial statements.

In December 2004, the GASB issued Statement No. 46 (amendment of GASB Statement No. 34), *Restricted by Enabling Legislation*, effective for the Authority's fiscal year beginning July 1, 2005. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has cause for reconsideration. The Authority does not believe this Statement will have a material effect on its financial statements.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, effective for the Authority's fiscal year beginning July 1, 2005. This statement requires the recognition of a liability and expense for *voluntary* termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. The Authority does not believe this Statement will have a material effect on its inancial statements.

In May 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*, effective for the Authority's fiscal year beginning July 1, 2006. This statement addresses the accounting and reporting requirements for costs and obligations resulting from post employment healthcare and other non-pension benefits. It establishes uniform financial reporting standards for other postemployment benefits (OPEB)

A. Summary of Significant Accounting Policies, continued

plans. The Authority is currently evaluating the effect this Statement will have on its financial statements.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the Authority's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of OPEB expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the Authority, this will result in increased expenses and a related liability which will likely be significant. The Authority is currently evaluating the effect that Statement No. 45 will have on its financial statements.

Assets Whose Use is Limited
The balance sheets caption, "Assets whose use is limited", represents restricted or trusteed assets under the 1978 Trust Agreement and the PFC Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities, debt service and debt service reserves.

Cash and Cash Equivalents
The Authority considers all highly liquid investments (including "Assets whose use is limited") with an original maturity of 30 days or less when purchased to be cash equivalents.

Investments
Investments with an original maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. Investments with an original maturity of less than one year are carried at amortized cost which approximates fair value. Investments consist of U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, shares in the Massachusetts Municipal Depository Trust ("MMDT") and other investments permitted under the 1978 Trust Agreement or the PFC Trust Agreement. (See Note C.)

Self-Insurance
The Authority, as mandated by the 1978 Trust Agreement, maintains a Self-Insurance Account within the Operating Fund. The funds on deposit in the Self-Insurance Account are intended to pay claims that are below insurance policies' deductible limits, and to be available to fund certain claims that may not be insurable on reasonable terms, if any. Investments used to fund self-insurance claims are included within "Assets whose use is limited" in the accompanying balance sheets. (See Note N.)

Capital Assets
Facilities are carried at historical cost and include the expenditure of capital grants, the cost of significant renewals and betterments and related legal costs. Capital grants received are recorded as capital grant revenue. Expenditures for repairs and operating maintenance are charged to expense as incurred. The capitalization threshold is a minimum of $5,000 for all capital assets.

A. Summary of Significant Accounting Policies, continued

Facilities are carried at historical cost and include the expenditure of capital grants, the cost of significant renewals and betterments and related legal costs. Capital grants received are recorded as capital grant revenue. Expenditures for repairs and operating maintenance are charged to expense as incurred. The capitalization threshold table is shown below:

Asset Category	Capitalization Threshold
Buildings & Bridge	$10,000
Machinery & Equipment	$5,000
Equipment Repair/Overhaul (Major)	$25,000
Runways, Runways & Other Paving	$50,000
Land	All land will be capitalized
Land Improvements	$50,000

Operating and Non-operating Revenues and Expenses
Operating revenue includes rentals, tolls, fees, concessions, and other charges derived in connection with the use of and privileges granted at the Authority's facilities, and amounts received from operating grants. All other revenues, which include interest income, Passenger Facility Charges ("PFCs"), non-operating grants, and gains resulting from the disposition of assets, if any, are reported as non-operating revenues. Operating expenses include those costs incurred for the operation and maintenance of the Authority's facilities, administrative expenses, insurance premiums, pension expenses, any payments made by the Authority in lieu of taxes, and depreciation. All other expenses, such as interest expense and losses resulting from the disposition of assets, are reported as non-operating expenses.

Depreciation
Depreciation is calculated on the straight-line method based on the estimated useful lives of the applicable assets beginning in the fiscal year of acquisition or completion of construction. Depreciation is computed on facilities, which are recorded in the accounts of the Authority, including those financed by grants. (See Note D.)

Interest Capitalization
The Authority capitalizes certain interest expense associated with the cost of tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $7,542,000 and $10,567,000, reduced by interest income of $1,255,000 and $1,009,000, resulted in interest of $6,287,000 and $9,558,000 for the years ended June 30, 2005 and 2004, respectively, being capitalized as a part of the cost of Construction In Progress.

Accounting for Compensated Absences
The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the captions "compensated absences." The compensated absences liability is $21,216,000 for fiscal year 2005 and $18,954,000 for fiscal year 2004.

Deferred Income
Deferred income consists primarily of amounts received from the Massachusetts Highway Department ("MHD") as compensation for temporary and permanent easements in certain

A. Summary of Significant Accounting Policies, continued

properties at Logan Airport which provide MHD with sufficient rights in land owned by the Authority to permit MHD to complete the Ted Williams Tunnel project, as currently designed. Income received from these easements will be recognized as follows: for temporary easements, over the shorter of the asset's useful life or the original term; and for permanent easements, over the estimated useful life of the assets constructed, which is 25 years.

Arbitrage - Rebate Liability

The U.S. Treasury has issued regulations on calculating the rebate due to the U.S. Government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Internal Revenue Code of 1986, as amended. Arbitrage profits arise when the Authority temporarily invests the proceeds of tax-exempt debt in securities with higher yields than the yield on such debt. The Authority records a liability for arbitrage profits, if any, when the likelihood of payment becomes probable. The Authority made a payment to the Internal Revenue Service of $2.6 million in fiscal year 2004. The Authority recorded an arbitrage rebate liability of $304,000 and $87,000 for the years ended June 30, 2005 and June 30, 2004, respectively, for arbitrage earned that is likely to be rebated to the U.S. government related to the Authority's PFC Revenue Bonds Series 1999-A and 1999-B.

Passenger Facility Charges

Revenues derived from the collection of passenger facility charges ("PFCs") are recognized on the accrual basis and reported as non-operating revenue by the Authority.

Net Assets

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of three components: Invested in capital assets, net of related debt; restricted; and unrestricted. Net assets invested in capital assets, net of related debt, include capital assets, net of accumulated depreciation, reduced by outstanding debt allocable to such assets net of applicable debt service reserves. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

Intangible Assets

Intangible assets consist of the rights to use certain parking spaces acquired by the Authority as part of the ParkEx Acquisition. During fiscal 2001, the Authority purchased the ownership interest of two partnerships that owned and operated a park and fly business ("ParkEx") located near the Airport and held the contractual rights to park 1,377 automobiles in East Boston (the "ParkEx Parking Spaces"). The total amount allocated to the ParkEx Parking Spaces is approximately $40.1 million and is presented as Intangible Assets, net of amortization, in the accompanying financial statements. These intangible assets are amortized on a straight-line basis over 30 years.

Joint Venture

The Authority has a 33% participating interest in a joint venture (known as the Anderson Regional Transportation Center). In accordance with the joint venture agreement, the Authority records as income or loss its proportionate share of the net earnings or losses of the joint venture with a corresponding increase or decrease in the carrying value of the investment. The investment in the joint venture is reduced as cash distributions are received and is increased as cash contributions are made. (See Note M.)

A. Summary of Significant Accounting Policies, continued

Financial Statement Reclassification
Certain accounts in the June 30, 2004 financial statements have been reclassified to conform with the June 30, 2005 presentation.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement and the PFC Trust Agreement to the Financial Statements

The provisions of the Enabling Act, the 1978 Trust Agreement and the PFC Trust Agreement prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the 1978 Trust Agreement, cash revenues of the Authority are deposited daily into the Revenue Fund established pursuant to the 1978 Trust Agreement and are transferred daily to the cash concentration account. Once each month, all such revenues are transferred to the various funds established pursuant to the 1978 Trust Agreement. After providing for operating expenses, including pension expense and transfers to the Self-Insurance Account, cash revenues are then transferred to the Interest and Sinking Fund, which are applied to debt service on any outstanding revenue bonds, the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and, if applicable, the Capital Budget Fund and finally the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are deposited in the Capital Budget Account within such fund. PFCs are deposited in the PFC Pledged Revenue Fund established pursuant to the PFC Trust Agreement and applied monthly to pay debt service on PFC Revenue Bonds as required in the PFC Trust Agreement. Any remaining funds are transferred to the PFC Capital Fund. In order to comply with federal tax requirements, the Authority also establishes a separate rebate account for each series of its bonds. In fiscal years 2005 and 2004, the only rebate accounts that were funded were the Series 1999-A and 1999-B PFC Rebate Accounts.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued

Presented below are the 2005 and summary 2004 revenues and operating expenses as determined in accordance with the 1978 Trust Agreement, and a reconciliation to net assets as presented in the accompanying statements of revenues, expenses and changes in net assets under accounting principles generally accepted in the United States of America ("GAAP").

			Port Properties			2005	2004
(In thousands)	Bridge	Airport Properties	Maritime Operation	Maritime Real Estate	Investment Income	Total	Total
Trust Revenues:							
Pledged revenues	$ 27,452	$ 370,195	$ 41,603	$ 15,874	$ 9,488	$ 464,612	$ 416,673
Operating Grant	112	4,448	801	93	-	5,454	4,859
Adjustment for uncollectible accounts	(14)	(129)	(157)	(20)		(320)	(573)
Total	27,550	374,514	42,247	15,947	9,488	469,746	420,959
Trust Operating Expenses:							
Operations and maintenance	6,457	158,468	37,696	7,893	-	210,514	188,729
Administration (5)	2,425	37,065	3,824	4,709	-	48,023	44,093
Insurance	662	7,573	334	457	-	9,026	8,625
Pension	111	1,742	152	136	-	2,141	1,834
Total	9,655	204,848	42,006	13,195	-	269,704	243,281
Excess (deficit) of Revenues over Operating Expenses as prescribed by the 1978 Trust Agreement	17,895	169,666	241	2,752	9,488	200,042	177,678
Add:							
Investment Income-Self Insurance/Others (3)	-	-	-	-	1,924	1,924	1,762
Passenger Facility Charge (PFC) (3)	-	35,316	-	-	621	35,937	33,453
Earnings associated with PFC bond funds (3)	-	-	-	-	1,423	1,423	1,302
Capital grant revenue (3)	-	46,682	1,027	-	-	47,709	90,115
Gain on sale of equipment (2) (4)	-	18	42	-	-	60	9
Administration Expenses (1) (5)	43	1,816	117	24	-	2,000	1,000
Settlement of Claims (3)	79	2,896	335	44	-	3,354	1,000
Less:							
PILOT (4)	(485)	(10,162)	(1,030)	(351)	-	(12,028)	(12,419)
Self Insurance Cost (1)	(84)	(1,805)	(256)	(50)	-	(2,195)	(1,610)
Interest Expense (4)	(481)	(62,499)	(1,244)	(396)	-	(64,620)	(59,665)
Depreciation and Amortization (2) (4)	(5,911)	(114,890)	(13,322)	(1,884)	-	(136,007)	(111,726)
Operating Expenses (4)	-	(307)	(791)	(1,293)	-	(2,391)	(12,666)
Nonoperating Other Expenses (4)	-	(230)	-	-	-	(230)	(176)
Increase in net assets	$ 11,056	$ 66,501	$ (14,881)	$ (1,154)	$ 13,456	$ 74,978	$ 108,057

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued

(1) Expensed under 1978 Trust Agreement, not an expense under GAAP.
(2) Equipment is depreciated under GAAP but not under 1978 Trust Agreement.
(3) Not revenue under 1978 Trust Agreement, revenue under GAAP.
(4) Not operating income/(expense) under 1978 Trust Agreement, income/(expense) under GAAP.
(5) The Authority allocates total administrative expenses based upon the proportionate amount of revenues and direct expenses by facility.

C. Cash, Cash Equivalents and Investments

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 2005 by the various funds and accounts established under the 1978 Trust Agreement and the PFC Trust Agreement. Summary 2004 information is also presented:

	Current		Non-current		
(In thousands)	Cash and cash equivalents	Investments	Assets whose use is limited: Cash, cash equivalents and investments	2005 Total	2004 Total
User defined for specific purposes:					
Operating/Revenue Fund	$ 33,350			$ 33,350	$ 35,088
Self-Insurance Account			41,557	41,557	41,429
Maintenance Reserve Fund			43,719	43,719	29,672
Payments in Lieu of Taxes Fund			7,229	7,229	5,303
Capital Budget Account			88,360	88,360	106,908
Improvement and Extension Fund	9,365	73,975	3,102	86,442	71,431
1997-A Debt Service			7,468	7,468	7,362
1997-A Debt Service Reserve			5,200	5,200	10,836
1997-B Debt Service			1,989	1,989	1,964
1997-B Debt Service Reserve			3,028	3,028	2,997
1998-A Debt Service			2,895	2,895	2,893
1998-A Debt Service Reserve			5,019	5,019	9,650
1998-B Debt Service			2,556	2,556	2,532
1998-B Debt Service Reserve			4,427	4,427	4,305
1998-C Debt Service			14,931	14,931	14,591
1998-C Debt Service Reserve			16,519	16,519	12,434
1998-D Debt Service			3,035	3,035	2,999
1998-D Debt Service Reserve			3,576	3,576	4,538
1998-E Debt Service			3,828	3,828	3,787
1998-E Debt Service Reserve			5,827	5,827	5,731
1999-C Debt Service			5,489	5,489	5,443
1999-C Debt Service Reserve			5,515	5,515	14,137
1999-D Debt Service			3,438	3,438	3,407
2003-A Project			-	-	43,471
2003-A Debt Service			8,108	8,108	5,292
2003-A Debt Service Reserve			14,302	14,302	14,038
2003-B Project			23	23	17,094
2003-B Debt Service			214	214	124
2003-B Debt Service Reserve			5,681	5,681	5,572
2003-C Debt Service			7,449	7,449	7,350
2003-C Debt Service Reserve			9,916	9,916	9,207
2005-A Project			158,537	158,537	-
2005-A Debt Service Reserve			12,551	12,551	-
2005-B Project			26,897	26,897	-
2005-B Debt Service			134	134	-
2005-B Debt Service Reserve			1,916	1,916	-
2005-C Debt Service Reserve			15,213	15,213	-
2003-A CP Project Account			294	294	10,566
2003-B CP Project Account			1,049	1,049	3,792
Park Ex Principal 2000			8,533	8,533	8,026
Park Ex Interest 2000			1,293	1,293	1,291
Park Ex Principal 2001			7,255	7,255	6,824
Park Ex Interest 2001			1,099	1,099	1,097
Maintenance Reserve-Term A Escrow			274	274	-
PFC Pledged Revenue			3,896	3,896	3,077
PFC Capital			16,337	16,337	13,443
PFC Collection			344	344	634
1999-A&B PFC Funded Interest			4,962	4,962	5,168
1999-A&B Non-PFC Fund Interest			681	681	694
1999-A Non-PFC Funded Debt Service Reserve			25,578	25,578	25,568
1999-B PFC Principal			10,715	10,715	10,273
1999-A Rebate – PFC			76	76	402
1999-B Rebate - PFC			528	528	2,794
	$ 42,715	$ 73,975	$ 622,562	$ 739,252	$ 595,234

C. Cash, Cash Equivalents and Investments, continued

The carrying amount of the Authority's cash deposits was $8,964,000 and $5,733,000 at June 30, 2005 and 2004, respectively. The bank balance was $15,455,807 and $11,676,000 at June 30, 2005 and 2004, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end.

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 2005. Summary 2004 information is also presented.

(In thousands)	Carrying Amount	Fair Value as of June 30
Forward delivery agreements	$ 140,605	$ 140,605
Guaranteed Investment Contracts	15,789	15,789
U.S. Government Agencies and Instrumentalities:		
Treasury Note / Bill	19,576	19,448
Federal Agricultural Mortgage Corp.	3,747	3,742
Federal Farm Credit (FFC)	12,556	12,503
Federal National Mortgage Association (FNMA)	132,165	131,130
Federal Home Loan Bank (FHLB)	134,450	134,570
Federal Home Loan Mortgage Corp. (FHLMC)	117,685	116,517
Total U.S. Government Agencies and Instrumentalities	420,179	417,910
Mutual fund (MMDT) and Morgan Stanley	144,213	144,213
Municipal Savings (Citizens Bank)	4,484	4,484
Total Mutual Fund and Others	148,697	148,697
Total Cash Equivalents and Investments	725,270	723,001
Cash deposit	8,964	8,964
Certificates of deposit	5,018	5,018
Total at June 30, 2005	$ 739,252	$ 736,983
Total at June 30, 2004	$ 595,234	$ 593,432

C. Cash, Cash Equivalents and Investments, continued

The Authority's investments are made in accordance with the provisions of the 1978 Trust Agreement or the PFC Trust Agreement and the investment policy adopted in 2000 by the Members of the Authority (the "Investment Policy"). The goals of the Investment Policy are, in descending order, to preserve capital, to provide liquidity and to generate interest income. As directed by the Investment Policy, the Authority has established an Investment Oversight Committee, comprised of Authority staff, which meets quarterly to review the Authority's investment portfolio for compliance with the Investment Policy and to establish, revise and monitor investment strategy and external benchmarks for the performance of the Authority's investments.

The Authority is authorized by the 1978 Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in the Massachusetts Municipal Depository Trust ("MMDT", an unrated, money market-like governmental investment pool), in bank time deposits and in forward delivery agreements, and certain other types of permitted investments specified therein. In May 2005 after the sale of the 2005 Bonds, amendments to the 1978 Trust Agreement became effective that also permit the investment of the Authority's funds in highly rated money market funds, commercial paper sold by bank holding companies, banker's acceptances and the purchase of Federal Home Loan Mortgage Corporation securities. (The PFC Trust Agreement already permitted these investments.)

As of June 30, 2005, The Authority implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 "Deposit and Investment Risk Disclosures" ("GASB 40") and, accordingly the Authority has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash and Investments.

a) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority would not be able to recover the value of its deposits, investments or collateral securities that were in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Authority and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name.

The Authority maintains depository accounts with Bank of America, N.A., Wachovia Bank, N.A., and with the Bank of New York, the PFC Trustee. The Authority maintains payroll disbursement, lockbox and collection accounts (for other than PFCs) with the Bank of America, N.A. None of these accounts are collateralized.

The following are balances on deposit on June 30, 2005:

Bank	Balance
Bank of America, N.A	$ 3,378,665
Wachovia Bank, N.A	11,732,726
Bank of New York	344,415

C. Cash, Cash Equivalents and Investments, continued

As of June 30, 2005, all investments were held on behalf of the Authority by the Trustee, the PFC Trustee or custodians in the Authority's name. Any repurchase agreements are fully collateralized by obligations of the U.S. Government or agencies of the U.S. Government. However, no repurchase agreements were held by the Authority during fiscal year 2005. The 1978 Trust Agreement and the PFC Trust Agreement both require that securities collateralizing repurchase agreements must continuously have a fair value at least equal to the cost of the agreement plus accrued interest.

The Authority's investments in forward delivery agreements are in the form of a guaranteed investment contract which provides for, among other things, the sequential delivery of securities to be sold to the Trustee or PFC Trustee, as applicable, periodically at a discount from maturity value such that the aggregate discount equals the interest rate previously agreed between the Authority and the provider of the guaranteed investment contract.

b) Concentration of Credit Risk

Concentration of Credit Risk is assumed to arise when the amount of investments that the Authority has with any one issuer exceeds 5 percent or more of the total value of the Authority's investments.

The Investment Policies and Procedures adopted by the Investment Oversight Committee on August 14, 2003 in accordance with the Investment Policy set forth the diversification limits for each type of security as shown below:

Type of Security	**Maximum per fund**	**Maximum per the Authority-wide portfolio**
U.S. Treasuries Bills and Notes	100%	100%
Federal Agencies	100%	100%; 35% per issuer
Bankers Acceptances & Commercial Paper	10% per issuer	35% per issuer
Repurchase Agreements <30 days	Overnight repos – 100%	100% per fund; 25% per counterparty
	Longer repos – 50%	50% per fund; 25% per counterparty
Full Flex Repos	100%	25% per counterparty
Forward Delivery Agreements	100% if collateralized with Treasuries or Federal Agencies	50% per counterparty
MMDT	100%	25%

C. Cash, Cash Equivalents and Investments, continued

As of June 30, 2005, the portions of the Authority-wide portfolio, excluding the MMDT and U.S. Government guaranteed obligations, that exceed 5% of the portfolio are as follows:

Issuer	% of Portfolio
Federal Home Loan Bank	18.97%
Federal Home Loan Mortgage Corp.	16.23%
Federal National Mortgage Association	32.57%

c) Credit Risk

Credit risk is the risk that the Authority will lose money because of the default of the security issuer or investment counterparty.

The Authority's 1978 Trust Agreement and PFC Trust Agreement each stipulate that, in addition to U.S. Treasury and government agency obligations, only certain highly rated securities are eligible investments, including bonds or obligations of any state or political subdivision thereof rated in the two highest rating categories by both Moody's and S&P; commercial paper of a U.S. corporation or finance company or money market funds rated in the highest rating category, without regard to gradations within categories, by both Moody's and S&P; and investment contracts with banks whose long-term unsecured debt rating is in one of the two highest rating categories by both Moody's and S&P.

The table below shows the fair value and credit quality of the Authority's investment portfolio, by investment type, as of June 30, 2005. The table distributes and values the individual securities held under the forward delivery agreements. In contrast, the table on page 53 aggregates the carrying amount and fair value of the forward delivery agreements as a unified type of investment.

C. Cash, Cash Equivalents and Investments, continued

Investment Type	Fair Value	Credit Rating (1)
U.S. Government Obligations	$ 19,448,017	N/A
Federal Agency Bonds/Notes	254,527,750	AAA/Aaa
Federal Agency Discount Notes	251,347,313	A-1+/P-1
Federal Agricultural Mortgage Corp.	3,742,399	Unrated
Investments under forward delivery agreement held in the form of cash	29,449,292	N/A
MMDT	119,208,934	Unrated
Morgan Stanley Money Market	25,004,057	AAA/Aaa
Citizens Bank Money Market	4,484,021	Unrated
One United Bank Certificate Deposit	5,018,526	AAA/Aaa (2)
Guaranteed Investment Contracts	15,788,691	AAA/Aaa (3)

(1) The ratings shown in this table are from S&P and Moody's, repectively
(2) Collateralized by Federal Agency Notes
(3) Underlying Rating of the Counterparties

d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Investment Oversight Committee has set targets for the preferred maturity structure for the investments held for each fund and account and also sets targets each quarter for the effective duration for each fund that reflect the need for liquidity and the expected tradeoffs between yield and term for each different fund and account. The tables below show the current investment limitation/mandate for each fund and account and the fair value and effective duration for each fund and account as of June 30, 2005.

C. Cash, Cash Equivalents and Investments, continued

1. Accounts and Funds pledged under the terms of the 1978 Trust Agreement, as amended:

Account or Fund	Investment Mandate	Fair Value	Effective Duration
Disbursement Concentration Account	Invest until funds are needed	$ 25,004,057	0.003
Debt Service Accounts	Invest until next pay date on either Jan. 1st or July 1st or the next business day	79,748,203	0.003
Debt Service Reserve Accounts	Average maturity < 7 years	108,081,412	3.58
Maintenance Reserve Fund	Average maturity < 5 years	43,493,180	0.42
PILOT Fund	Invest until next payment date (less than one year)	7,228,842	0.02
Capital Budget Account (within I&E)	Invest until next payment dates	87,726,558	0.75
Improvement & Extension (I&E) Fund	Invest until expected payment dates	86,048,525	0.64
Self Insurance Account	Invest until expected payment dates	41,280,896	0.73
Project Accounts within Construction Funds for Series: 2003 A&C, 2005 A&B and for commercial paper	Invest until expected payment dates	186,642,226	0.40

C. Cash, Cash Equivalents and Investments, continued

2. Accounts and Funds established per the terms of the PFC Trust Agreement:

Account or Fund	Investment Mandate	Fair Value	Effective Duration
PFC Pledged Revenue Fund	Invest until the last business day of the month	$ 3,895,603	0.003
PFC Debt Service Accounts	Invest until next pay date on either Jan. 1st or July 1st or the next business day	16,355,232	0.003
PFC Rebate Accounts	Invest until the 5 year payment date	603,639	0.003
PFC Debt Service Reserve Accounts	Invest until date of last principal payment	25,573,952	8.87
PFC Project Fund	Invest until payment dates	16,336,675	0.003

It is the Authority's policy to hold investments until maturity in order to insulate the Authority's investment earnings from interest rate risk.

D. Capital Assets

Net capital assets at June 30, 2005 and 2004 are comprised of:

(In thousands)	2005	2004
Facilities completed by operation:		
Airport	$ 2,893,031	$ 2,582,104
Bridge	156,119	150,920
Port	455,853	448,054
Capital assets	$ 3,505,003	$ 3,181,078

A summary of changes in investments in facilities and in construction in progress for the year ending June 30, 2005 is as follows:

(In thousands)	Beginning balance July 1, 2004	Additions and Transfers	Deletions and Transfers	Ending balance June 30, 2005
Construction in progress	$ 189,393	$ 318,541	$ (372,882)	$ 135,052
Capital Assets:				
Land	140,594	729	-	141,323
Bridge and bridge improvements	139,735	4,508	-	144,243
Buildings	1,880,311	158,004	(41)	2,038,274
Runway & other paving	451,270	63,795	(24)	515,041
Roadway	438,448	75,526	-	513,974
Machinery & Equipment	130,720	35,108	(13,680)	152,148
Total Capital Assets	3,181,078	337,670	(13,745)	3,505,003
Less: accumulated depreciation:				
Bridge and bridge improvements	(83,324)	(5,123)	19	(88,428)
Buildings	(722,476)	(74,659)	1,149	(795,986)
Runway & other paving	(180,992)	(17,113)	336	(197,769)
Roadway	(89,517)	(24,112)	-	(113,629)
Machinery & Equipment	(99,957)	(15,668)	12,640	(102,985)
Total Accumulated Depreciation	(1,176,266)	(136,675)	14,144	(1,298,797)
Total Capital Assets, net	$ 2,194,205	$ 519,536	$ (372,483)	$ 2,341,258

Total depreciation for fiscal year 2005 was $134.5 million, an increase of $24.3 million from fiscal year 2004, which was $110.2 million.

D. Capital Assets, continued

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 to 25 years
Buildings	25 years
Runways and other airfield paving	25 years
Roadway	25 years
Machinery and equipment	5 to 10 years

E. Passenger Facility Charge

In 1993, the Authority received initial approval from the Federal Aviation Administration ("FAA") to impose a $3.00 passenger facility charge ("PFC") at Logan Airport. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. In February 1998, the Authority received approval from the FAA to increase its collections up to $927.4 million with a projected expiration date of October 1, 2017. Through June 30, 2005 the Authority had collected $405.8 million in PFCs. The Authority has also received approval from the FAA to use or expend a total of $927.4 million for preliminary design projects as well as for the final design, construction and financing costs associated with the eligible portions of residential soundproofing, Terminal E Modernization, circulating roadways, the elevated walkways, and the International Gateway Project.

On May 6, 1999, the Authority entered into the PFC Trust Agreement with The Bank of New York, as trustee, simultaneously removing PFC revenues from the pledge of the 1978 Trust Agreement. All PFCs collected by the Authority are currently pledged under the PFC Trust Agreement. On June 16, 1999, the Authority issued $249,355,000 of PFC Revenue Bonds, Series 1999-A and 1999-B pursuant to the PFC Trust Agreement, of which $211,710,000 was outstanding as of June 30, 2005 and $221,705,000 was outstanding as of June 30, 2004.

On July 29, 2005, the Authority submitted a request to amend the existing PFC authorization to increase the collection amount from $3.00 to $4.50, and to decrease the FAA-approved amount for certain completed projects and increase the FAA-approved amount for the International Gateway Project by 11.4%. On September 2, 2005, the FAA issued a record of decision increasing the PFC to $4.50, effective October 1, 2005, and shortening the projected expiration date to February 1, 2011.

The amount of assets derived from PFC revenue and the proceeds of bonds issued pursuant to the PFC Trust Agreement invested in Authority facilities, operations and reserves that are restricted for future PFC project expenses is as follows:

E. Passenger Facility Charge, continued

(In thousands)	June 30, 2005	June 30, 2004
Total assets, PFCs	$ 607,653	$ 552,696
PFC funds and PFC Bond funds expended, net	(538,722)	(485,707)
Other PFC related assets	(4,473)	(4,934)
PFCs collected to date and PFC Bond proceeds restricted but not yet expended	$ 64,458	$ 62,055

F. Funded Debt

The Authority's long term bonds issued and outstanding as of June 30, 2005 and 2004 were as follows:

Bonds Payable (in thousands)	Issue Date	Interest Rates	Maturity Date	Serial/Term Outstanding Bond Balance	Outstanding Bond Balance 2005	Outstanding Bond Balance 2004
Senior Debt - 1978 Trust Agreement						
Series 1997- A Revenue Bonds	07/31/97					
Serial		5.25% - 6.0%	2005-2008	$ 13,030		
					13,030	128,235
Series 1997- B Revenue Bonds	08/15/97					
Serial		4.8% - 5.3%	2005-2017	16,380		
Term		5.375%	2022	9,825		
Term		5.375%	2027	12,780		
					38,985	39,865
Series 1997- C Refunding Bonds	07/31/97					
Serial - Taxable		4.5% - 5.125%	2005-2017	12,800		
Term - Taxable		5.125%	2020	4,290		
					17,090	17,795
Series 1998-A Refunding Bonds	01/29/98					
Serial		4.6%-5.75%	2009-2018	86,585		
Term		5.0%	2023	18,075		
					104,660	104,660
Series 1998-B Refunding Bonds	01/29/98					
Serial		5.0%-5.375%	2005-2018	37,215		
					37,215	38,715
Series 1998-C Refunding Bonds	01/29/98					
Serial		6.3%-6.45%	2005-2009	61,915		
					61,915	73,850
Series 1998- D Revenue Bonds	08/05/98					
Serial		4.5%	2005-2009	7,910		
Term		5.0%	2028	34,870		
					42,780	63,890
Series 1998- E Revenue Bonds	08/05/98					
Serial		4.4% - 5.25%	2005-2013	19,430		
Term		5.25%	2018	15,140		
Term		5.0%	2028	44,275		
					78,845	80,555
Series 1999- C Revenue Bonds	11/12/99					
Serial		4.6% - 5.0%	2005-2010	14,855		
					14,855	114,500
Series 1999- D Revenue Bonds	11/12/99					
Serial		4.8% - 6.25%	2005-2019	29,795		
Term		6.0%	2022	9,620		
Term		6.0%	2029	30,210		
					69,625	70,915
Series 2003-A Revenue Bonds	05/22/03					
Serial		2.0% - 5.0%	2005-2025,2033	127,140		
Term		5.0%	2028	30,820		
Term		5.0%	2033	61,650		
					219,610	221,810

(Continued on next page)

F. Funded Debt, continued

Bonds Payable (in thousands)	Issue Date	Interest Rates	Maturity Date	Serial/Term Bond Outstanding Balance	Outstanding Bond Balance 2005	Outstanding Bond Balance 2004
Senior Debt - 1978 Trust Agreement						
Series 2003-B Revenue & Refunding Bonds	05/22/03					
Serial		Variable	2005-2033	$ 77,575		
					77,575	78,750
Series 2003-C Refunding Bonds	05/22/03					
Serial		2.0% - 5.0%	2005-2018	80,970		
					80,970	86,360
Series 2005 A Revenue Bonds	05/05/05					
Serial		3.0% - 5.0%	2006-2028	119,820		
Term		5.0%	2029-2035	72,315		
					192,135	n/a
Series 2005 B Revenue Bonds	05/05/05					
Serial		Variable	2006-2035	29,725		
					29,725	n/a
Series 2005 C Refunding Bonds	05/05/05					
Serial		3.0% - 5.0%	2007-2029	231,890		
					231,890	n/a
Subordinate Debt - 1978 Trust Agreement						
Series 2000 - A, B & C Revenue Bonds	12/29/00					
Term		6.45%	2030	40,000		
					40,000	40,000
Series 2001 - A, B & C Revenue Bonds	01/02/01					
Term		6.45%	2031	34,000		
					34,000	34,000
Senior Debt - PFC Trust Agreement						
Series 1999 A PFC Revenue Bonds	06/09/99					
Term		5.15%	2015	5,120		
Term		5.125%	2016	18,335		
Term		5.125%	2017	44,210		
					67,665	67,665
Series 1999 B PFC Revenue Bonds	06/09/99					
Serial		4.5% - 5.5%	2005-2015	144,045		
					144,045	154,040
Sub-total					**1,596,615**	**1,415,605**
Plus unamortized discount/premium					47,599	22,167
Less: unamortized loss on refunding					(24,724)	(10,479)
Total Funded Debt					$ 1,619,490	$ 1,427,293
Less: current maturities of funded debt					(47,017)	(41,905)
Non current maturities of funded debt					$ 1,572,473	$ 1,385,388

F. Funded Debt, continued

The following is a summary of the Authority's activity with respect to its long term Bonds outstanding for the years ended June 30, 2005 and 2004:

(in thousands)	2005	2004
Funded debt, beginning of year	$ 1,415,605	$ 1,449,625
New debt issued (par)	453,750	-
Principal paid on refunded debt	(229,660)	-
Principal paid on funded debt	(43,080)	(34,020)
Funded debt, end of year	$ 1,596,615	$ 1,415,605

The following is a summary of the maturities and sinking fund requirements not including any unamortized discount or premium. Scheduled principal payments on long term bonds are due annually on July 1 as follows (except for the 2003-B and 2005-B Bonds, which are auction rate securities with principal due on the last auction date preceding July 1.

(in thousands)

Due Fiscal Year	Principal	Interest*	Total Debt Service
2006	$ 47,285	$ 61,835	$ 109,120
2007	52,620	77,287	129,907
2008	56,700	74,728	131,428
2009	59,825	71,839	131,664
2010	62,160	68,951	131,111
Thereafter	1,318,025	775,055	2,093,080
Total	$ 1,596,615	$ 1,129,695	$ 2,726,310

* The interest on the Series 2003-B Bonds including fees, is projected at 2.995% per annum, which was the debt service (interest and fees) as of the auction held on June 28, 2005. The interest on the Series 2005-B Bonds including fees, is projected at 2.700% per annum, which was the debt service (interest and broker dealer fees) as of the auction held on June 28, 2005. (Plus an annual auction agent fee of $2,000.)

F. Funded Debt, continued

Senior Debt - 1978 Trust Agreement: On May 5, 2005, the Authority issued the 2005 Bonds in a principal amount of $453,750,000, and with an original issue premium of $24,453,000. The 2005-A Bonds and the 2005-B Bonds were issued to finance a portion of the Authority's capital program. The 2005-C Bonds were issued to advance refund portions of the Authority's Revenue Bonds, Series 1997-A, Series 1998-D and 1999-C. The advance refunding resulted in the recognition of an accounting loss of $15.0 million, which will amortize over the life of defeased bonds. For fiscal year 2005, the Authority recorded a loss on refunding of $108,000. This advance refunding achieved a net present value savings of $9.77 million or 4.2%.

The 2005-A and 2005-C Bonds are fixed rate Revenue Bonds. The 2005-B Bonds are auction rate securities.

The Authority reviews each bond sale to determine if there is value in providing investors with municipal bond insurance. The Authority's Series 2003 Bonds are insured by MBIA and the Series 2005 Bonds are insured by Ambac.

Subordinate Debt - 1978 Trust Agreement: On December 29, 2000 and January 2, 2001, as a component of the ParkEx Acquisition (see Note A: Intangible Assets), the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of $74 million, bearing interest at 6.45% per annum (collectively, the "Subordinated Bonds"). The Subordinated Bonds are payable solely from funds on deposit in the Improvement and Extension Fund and in a separate account not subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement (the "Subordinated Bonds Principal Account").

The payment of debt service on the Subordinated Bonds is subordinate to all of the Authority's outstanding Revenue Bonds. The Authority has invested $12 million on deposit in the Subordinated Bonds Principal Account in two investment contracts which, at their stated maturities, will provide for the $74 million principal of the Subordinated Bonds at their respective maturities.

Senior Debt - PFC Trust Agreement: In 1999 the Authority issued two series of its PFC Revenue Bonds under the 1999 PFC Trust Agreement that are backed solely by PFC revenues. These bonds are insured by FSA.

Defeased Bonds: In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the trustee for such bonds to provide for all future debt service payments on the defeased bonds. Accordingly, the trust fund assets and the liability for the defeased bonds are not included in the Authority's Financial Statements. The Series 1969, 1971, 1973 and 1982 bonds were escrowed to maturity: the 1969 bonds have a final maturity of July 1, 2008; the 1971 bonds have a final maturity of July 1, 2011; the 1973 bonds have a final maturity of July 1, 2012; and the 1982 bonds have a final maturity of July 1, 2013. Certain of the Series 1997-A, 1998-D and 1999-C Bonds have been escrowed until their respective first optional redemption dates: the Series 1997-A redemption date is July 1, 2007; the Series 1998-D redemption date is July 1, 2008; and the Series 1999-C redemption date is January 1, 2010.

F. Funded Debt, continued

As of June 30, 2005, the balances outstanding for the following bonds which are considered defeased include:

	(in thousands)
1969 Series	$ 21,440
1971 Series	43,525
1973 Series	51,015
1982 Series	37,510
1997A Series	112,390
1998D Series	19,730
1999C Series	97,540
Total defeased bonds	$ 383,150

Special Facility Bonds: To provide for the construction and improvement of various facilities at Logan Airport, including a hotel and conference center, a fuel storage and distribution system, terminal redevelopment and improvement, and maintenance facilities, the Authority has issued and has outstanding nine series of special facilities revenue bonds. The Authority's special facilities revenue bonds are all special limited obligations of the Authority and are payable solely from and secured solely by certain revenues to be received by a separate trustee, pursuant to agreements between the Authority and the tenants of the facilities constructed with the proceeds of such bonds and, in certain cases, guaranty agreements from the lessee/obligor.

As a result of United Air Lines filing for bankruptcy protection in December 2002, the trustee for the Authority's $80,500,000 Special Facilities Revenue Bonds (United Air Lines, Inc. Project), Series 1999-A (the "United Bonds") has issued notice that the United Bonds are in default.

The Authority's special facilities revenue bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth or any subdivision thereof and, accordingly, have not been reflected in the accompanying financial statements.

At June 30, 2005, the aggregate principal amount of the Authority's special facilities revenue bonds outstanding was approximately $798.2 million.

Commercial Paper Notes: On March 10, 2005, the Authority renewed its commercial paper program and increased the maximum principal amount outstanding at any time to an aggregate principal amount not to exceed $139 million, and entered into an amendment to the Letter of Credit Agreement with WestLB AG, acting through its New York Branch, to extend the term to December 15, 2015. The sum of the non-AMT (Alternative Minimum Tax) program (the "2003-A Series") and the AMT program (the "2003-B Series") will not exceed the lesser of 10% of the outstanding principal on the Authority's outstanding bonds or $139 million.

As of June 30, 2005, $20 million of the 2003-A Series and $50 million of the 2003-B Series were outstanding. As of June 30, 2004, $20 million in commercial paper was outstanding of the 2003-A Series and $30 million of the 2003-B Series was outstanding. As of June 30, 2005, the blended interest rate on Series 2003-A was 2.465% and Series 2003-B was 2.619%.

F. Funded Debt, continued

The existing commercial paper program has been issued under the terms of the 1978 Trust Agreement and is backed by the proceeds of the Improvement and Extension ("I&E") Fund or anticipated bond funds. Currently, the proceeds of the commercial paper program are being used to fund PFC eligible projects. Therefore, the Authority expects that, when it is time to redeem the notes, PFC revenues will be the source of the cash to be transferred to the I & E Fund to pay such redemptions.

Commercial paper is defined as notes with a term of one to two hundred and seventy days. These notes are "rolled over" (or reissued) until they are repaid. The Authority currently expects to roll over all of the existing commercial paper through fiscal year 2009. In fiscal year 2005 the Authority rolled all outstanding paper and did not make any principal payments related to commercial paper.

The Authority's Commercial Paper Notes as of June 30, 2005 and 2004 were as follows:

(in thousands) Commercial Paper Notes	**2005**	**2004**
Commercial Paper Notes, beginning of year	$ 50,000	$ 42,000
New commercial paper issued	20,000	11,000
Principal paid on commercial paper	-	(3,000)
Commercial Paper Notes, end of year	$ 70,000	$ 50,000

G. Interest Rate Swap

On July 1, 2002, the Authority entered into a pay-variable, receive-fixed interest rate swap with a term of ten years to refund synthetically $56 million of the Authority's Revenue Bonds, Series 1999-D and $44 million of its Revenue Bonds, Series 1998-E. The objective of the swap is to lower the interest rates paid on the 1999-D Bonds and 1998-E Bonds. The notional value of the swap is $100 million. Under the terms of the swap, the Authority pays a variable rate equivalent to The Bond Market Association ("BMA") Municipal Swap Index, which was 2.28 percent at June 30, 2005, and receives fixed-rate payments at 4.05 percent. The Authority has pledged the Improvement and Extension Fund as security for its obligations under the swap agreement, specially designated a "swap account" within the Improvement and Extension Fund to be maintained at a level of $500,000 and agreed to maintain a balance of "available moneys" within the Improvement and Extension Fund of not less than $20 million. As of June 30, 2005, the swap created synthetic variable-rate bonds as follows:

G. Interest Rate Swap, continued

	Terms	Rates	Rates
Interest rate swap:			
Variable payment to counterparty	BMA	2.28%	2.28%
Fixed payment from counterparty	Fixed	(4.05%)	(4.05%)
Net interest rate swap payments		(1.77%)	(1.77%)
Fixed-rate bond coupon payments 1998-E	Fixed	5.32%	
Fixed-rate bond coupon payments 1999-D	Fixed		5.95%
Synthetic variable interest on the bonds		3.55%	4.18%

Fair value. As of June 30, 2005 and June 30, 2004, the swap had a positive fair value of $4,529,684 and $3,678,391, respectively. The fair value of the swap was calculated by PFM Asset Management using the par-value method: the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the established market value of the fixed component from the established market value of the variable component (the par value of the bond).

Credit risk. The swap's fair value represented the Authority's credit exposure to the counterparty as of June 30, 2005 and June 30, 2004. Should the counterparty to this transaction fail to perform according to the terms of the swap contract, the Authority faced a maximum possible loss equivalent to the swap's fair value of $4,529,684 and $3,678,891 as of June 30, 2005, 2004 respectively. As of June 30, 2005, the swap counterparty, Citigroup Financial Products (with a guarantee from Citigroup Global Markets Holdings Inc.) (collectively, "Citigroup") was rated Aa1 by Moody's, AA by S&P and AA+ by Fitch. To mitigate credit risk, if the counterparty's credit rating falls below A3 by Moody's or A- by S&P, the swap will be assigned to a third party reasonably acceptable to the Authority or the swap will be terminated.

Interest rate risk. The swap increases the Authority's exposure to interest rate risk. As the BMA Municipal Swap Index increases, the Authority's net payment on the swap increases or net receipts decrease.

Termination risk. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Citigroup may terminate the swap (a) if the Authority's senior general obligation revenue debt is rated less than A3 as determined by Moody's or A- by S&P, (b) if as of the last day of any calendar month, the available moneys on deposit in the Improvement and Extension Fund are less than $20 million, or (c) if the amount on deposit in the Swap Account of the Improvement and Extension Fund thirty days prior to any payment date is less that $500,000. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for that payment.

In fiscal year 2005, the Authority received four quarterly payments from Citigroup totaling $2,606,512. $1,459,647 was applied to the debt service for the 1999-D Bonds and $1,146,865 was applied to the debt service for the 1998-E Bonds.

G. Interest Rate Swap, continued

Interest expense for fiscal year 2005 was reduced by the net amounts received under the interest rate swap agreement of $2,606,512 for fiscal year 2005 and by $3,043,855 for fiscal year 2004.

H. Pension Costs

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C.487"). This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System," (the "Plan"). Prior to this enactment, Authority employees were members of the Massachusetts State Employees' Retirement System, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Plan is a contributory single employer defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan participants. The Plan issues a stand-alone financial report which can be obtained by writing to:

Massachusetts Port Authority Employees' Retirement System
One Harborside Drive, Suite 200S
East Boston, MA 02128-2909
http://www.massport.com/about/retir_public.htm

At January 1, 2005, the Plan's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:	489
Current members:	
Active	1,125
Inactive	90
Total	1,704

Benefits are paid by the Plan from net assets available for Plan benefits. Plan participants are entitled, at normal retirement date, to benefit payments based upon length of service and earnings levels. Vesting occurs after ten years of service. Optional payment methods may be elected, including the contingent annuitant method which provides for reduced payments during the life of the Plan participant and continued payments to the participant's beneficiary after the death of the participant.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $71.0 million as of January 1, 2005 and $64.5 million as of January 1, 2004. For the 12 months ended June 30, 2005 and the 12 months ended June 30, 2004, total payroll for the Authority's Plan participants was approximately $74.6 million and $68.8 million respectively. The actuarial cost method utilized to determine contributions for the years ended

H. Pension Costs, continued

December 31, 2004 and 2003 is the Frozen-Entry-Age Actuarial Cost Method Plan. The more significant actuarial assumptions underlying the actuarial computations for the Plan years ended December 31, 2004 and 2003 are as follows:

Assumed rate of return on investments	-	7.75% per annum compounded annually
Nondisabled life mortality basis	-	The RP-2000 Mortality Table
Withdrawal prior to retirement	-	The rates shown at the following sample ages illustrate the withdrawal assumption

	Rate of Withdrawal	
Age	**Group 1 and 2**	**Group 4**
25	9.0%	1.8%
30	5.6	1.7
35	3.2	1.3
40	2.3	0.5
45	1.8	0.04
50	1.5	N/A
55	N/A	N/A

Salary escalation	-	5.0% per annum
Rate of Inflation	-	3.0% per annum

Rates of retirement -

Group 1 and 2 employees are assumed to retire at the following rates upon attainment of 10 years of service.

Previously, Group 4 employees were assumed to retire at the later of age 58 and attainment of 10 years of services.

Age	Groups 1 and 2*	Group 4*
50	N/A	5%
51	N/A	5
52	N/A	5
53	N/A	5
54	N/A	5
55	9%	35
56	3	15
57	5	15
58	2	15
59	6	15
60	6	15
61	8	15
62	11	15
63	14	15
64	13	15
65	100	100

*Groups 1, 2 and 4 are assigned based on employee class.

H. Pension Costs, continued

Retirement benefits	-	Depending on age at retirement and "Group" classification, 0.1%-2.5% per year of service times highest three-year average salary.
Post retirement cost of living increases	-	3% per annum compounded annually on the first $12,000 of pension benefits.

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded actuarial accrued liabilities in level amounts at 7.75% over a period of 20 years on a closed basis. The actuarial value of assets is determined using fair values (adjusted by payables and receivables) adjusted to phase in investment gains or losses above or below the expected rate of investment return. A four-year rolling period is used.

Total contributions to the Plan were $8,462,595 for the plan year ended December 31, 2004. This includes employee contributions of $6,312,709, which are based upon a percentage of employee base pay (5% for employees hired before January 1, 1975, 7% for employees hired between January 1, 1975 and January 1, 1984, 8% for employees hired after January 1, 1984 but prior to July 1, 1996 and 9% for employees hired after July 1, 1996 and, effective January 1, 1998, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978), and the Authority's contribution of $2,149,886 to the Plan for the year ended December 31, 2004. Authority contributions are determined each year in accordance with an annual actuarial valuation performed for the Plan's fiscal year beginning January 1.

As presented in the following table, the Frozen Entry Age Actuarial Method for calculating the schedule of funding progress is the methodology required by the Plan under its charter.

Schedule of Funding Progress (in thousands):

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
Actuarial valuation date	Actuarial valuation assets	Actuarial accrued liability ("AAL")	Unfunded actuarial accrued liability ("UAAL")	Funded ratio	Covered payroll	UAAL as a percent of covered payroll
1/1/04	$293,743	$282,683	($11,060)	103.9%	$64,522	(17.1%)
1/1/03	275,618	261,594	(14,024)	105.4%	64,945	(21.6%)
1/1/02	293,120	294,457	1,337	99.5%	63,604	2.1%
1/1/01	285,609	285,209	(400)	100.1%	65,403	(0.6%)
1/1/00	260,162	262,606	2,444	99.1%	61,250	4.0%
1/1/99	230,807	234,184	3,377	98.6%	56,888	5.9%
1/1/98	202,761	208,176	5,415	97.4%	54,393	10.0%

H. Pension Costs, continued

Analysis of the dollar amounts of actuarial value of assets, AAL and UAAL, in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the AAL provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of AAL and annual covered payroll are both affected by inflation. Expressing the assets in excess of AAL as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

Schedule of Employer Contributions
(in thousands)

Calendar Year ended December 31	Annual required employer contributions (ARC)	Employer contributions as a percent of ARC
2004	$2,150	100%
2003	$1,842	100%
2002	-	0%
2001	-	0%
2000	-	0%
1999	-	0%
1998	$1,233	124%

The Plan's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Investment Valuation
Plan investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded on a national securities exchange for which no sale was reported on that date and investments in common and preferred stocks traded in over-the-counter markets are valued at the mean of the last reported bid and asked prices, or the last reported bid price. Mutual funds and commingled funds, including real estate, are valued based on net asset value at year-end. Limited partnerships are valued using the valuations reported by the general partner.

Certain operating expenses incurred by the Plan are funded by the Authority through additional employer contributions. Investment management fees, consulting fees and custodial fees for the Plan are reflected as deductions to investment income.

I. Contingent Liabilities and Commitments

Contractual Obligations for Construction
Contractual obligations for construction were approximately $438,289,000 at June 30, 2005 and $402,994,000 at June 30, 2004.

I. Contingent Liabilities and Commitments, continued

Guarantee and Intercreditor Agreement

During fiscal 2002, the Authority entered into a Guarantee and Intercreditor Agreement (the "Intercreditor Agreement") with The Bank of New York (the "Bank") in connection with an unrelated limited liability company's bonds. The bonds were issued in fiscal 2000 to provide financing to the limited liability company (the "Company"), which is a tenant of the Authority, to fund construction of a multi-tenant seafood processing and distribution center (the "Facility") located at the North Jetty in the Marine Industrial Park in Boston, Massachusetts on which the Authority has a long-term lease from the City of Boston. The Facility was substantially completed and fully leased at June 30, 2002 and remained fully leased as of June 30, 2005. The Intercreditor Agreement represents a guarantee by the Authority to pay the Bank up to $10 million in the event the Company does not meet its obligations to pay the guaranteed obligations, as defined. The Authority and the Company have also entered into an Amended and Restated Reimbursement Agreement (the "Reimbursement Agreement") pursuant to which the Authority has agreed to advance for the benefit of the Company up to $10 million to the Bank under the Intercreditor Agreement in the event the Company fails to repay drawings on the letter of credit issued by the Bank to support the bonds and up to $900,000 to others for certain additional costs, and the Company has agreed to repay such advances over a term of up to 15 years, with interest on the unpaid balance at 5% per annum. Such obligations of the Authority are payable solely from available moneys, as defined, in the Improvement and Extension Fund and cash collateral, if any, provided to the Bank under the Intercreditor Agreement.

As of June 30, 2005, the Authority had advanced on behalf of the Company, $896,786 of the $900,000 authorized, and received repayments of $407,680, which included principal and interest on the loan. In the opinion of the Authority's management, no advance pursuant to the Intercreditor Agreement is anticipated during the next twelve months and, no further advances pursuant to the Reimbursement Agreement are anticipated during the next twelve months.

Third Harbor Tunnel

The Massachusetts Highway Department ("MHD") is undertaking a depression of a portion of I-93 in downtown Boston ("Central Artery") and the extension of the eastern terminus of I-90 to the Airport by construction of a new tunnel under Boston Harbor (the "Ted Williams Tunnel"), (collectively, the "CA/T Project").

In March 1999, the Authority, MHD and the Massachusetts Turnpike Authority entered into a Roadway Transfer Agreement, which was supplemented and amended on October 27, 1999 and January 29, 2001, that provides for the acquisition by the Authority of certain identified segments of the CA/T Project located at Logan Airport following completion of construction of such segments, in exchange for installment payments by the Authority to the Commonwealth totaling an aggregate of $365 million. The Authority made payments totaling $265 million through June 30, 2005. On August 5, 2005, the Authority paid an additional $50 million to the Commonwealth pursuant to the Roadway Transfer Agreement. Following the August 5, 2005 payment and subject to the transfer to the Authority of assets of equivalent value, one remaining payment of $50 million will be due.

The Authority and MHD entered into a Settlement Agreement dated as of January 15, 1998 (the "CA/T Settlement Agreement") which is intended to resolve all past and certain future land acquisition claims relating to the portions of the Authority's property at the Airport and in South Boston necessary to complete the Ted Williams Tunnel project.

I. Contingent Liabilities and Commitments, continued

Pursuant to the CA/T Settlement Agreement, MHD has made payments to the Authority and certain of its tenants and agreed to provide certain betterments to the Authority. As of June 30, 2005, the Authority has received payments from MHD totaling approximately $41.9 million. In return, the Authority has released MHD from all land damage lawsuits and claims relating to the Ted Williams Tunnel project asserted by the Authority against MHD, assisted MHD with relocation of certain Airport tenants, caused certain tenants of the Authority to dismiss pending land damage actions against MHD, and provided MHD with sufficient rights in land owned by the Authority at the Airport to permit MHD to complete the Ted Williams Tunnel project, as currently designed.

Seaport Bond Bill

The Seaport Bond Bill was enacted on February 14, 1996 and provides authorization for funding by the Commonwealth of $15 million toward the nonfederal share of the cost of completing the Boston Harbor Navigation Improvement Project. The Seaport Bond Bill requires the Authority to pay twenty-five percent (25%) for the nonfederally funded costs of the Project. The Authority has already paid or committed approximately $5 million for the nonfederal share of the Project. Private berth owners have paid for the dredging of their individual berths. A second provision of the Seaport Bond Bill would provide a mechanism for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from Allston yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The Seaport Bond Bill requires that the Authority provide up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston yard in Boston permitting double stack shipments. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads. The Authority believes that the likelihood that any such Master Agreement will be executed and Authority funds committed for double stack improvements within the next fiscal year is remote.

Worcester Airport

On April 15, 1999, the Authority entered into a Memorandum of Understanding ("M.O.U.") with the City of Worcester, Massachusetts and the Worcester Airport Commission (the "City Parties"). The M.O.U. contemplates the takeover of the Worcester Regional Airport by the Authority in two separate phases. In compliance with Phase One, on January 15, 2000, the Authority assumed operating responsibility for Worcester Regional Airport pursuant to a separate Operating Agreement (the "OA"), which was amended in 2004.

The terms of the OA provide for the allocation of the net operating deficits for Worcester Regional Airport between the Authority and the City of Worcester, with the Authority assuming 100% of those net operating deficits during fiscal years 2005 and 2004. For the years ending June 30, 2005 and 2004, the Authority paid $1,663,000 and $2,168,000, respectively, for the net operating deficits of Worcester Regional Airport, plus certain of the Authority's direct expenses associated with operation of the Worcester Regional Airport. The OA was amended in 2004 to extend the term of the OA through June 30, 2007, and to allocate to the Authority responsibility for the following percentages of Worcester Regional Airport's operating deficit: for fiscal year 2005, 100%; for fiscal year 2006, 85%; and for fiscal year 2007, 68%. The Authority's portion of Worcester Regional Airport's budget deficits for fiscal years 2006 and 2007 are projected to be $1,769,638 and $1,415,710, respectively. The entire projected loss for fiscal years 2005 – 2007 was accrued in fiscal year 2004. The actual deficits will be adjusted each year.

I. Contingent Liabilities and Commitments, continued

Phase Two, anticipated by the M.O.U. to take place prior to the termination date of the OA, may involve the transfer of title of Worcester Regional Airport from the City Parties to the Authority. However, legislation would be required to effectuate such transfer. The Authority's goal is to develop a more effective and efficient regional airport network by increasing utilization of Worcester Regional Airport in conjunction with ongoing operation of its other airport facilities.

J. Payments in Lieu of Taxes

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements (collectively, the "PILOT Agreements") to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop. In fiscal 1992, the Authority's obligation to the City of Chelsea for annual in-lieu-of-tax payments through 2012 was satisfied by a payment of $5,000,000. In response to increased traffic on the Bridge and the increased impact of the Airport on Chelsea since 1992, however, the Authority and Chelsea amended their PILOT Agreement in fiscal 1999 to provide for annual payments by the Authority to Chelsea of $500,000 for each of the fiscal years 1999 through 2003, inclusive. This amendment expired June 30, 2003 and negotiations are currently in progress for a new amendment.

In fiscal 1994, the Authority entered into an extension of an amendment to its agreement with the Town of Winthrop (the "Winthrop PILOT Agreement") which extended the base in-lieu-of-tax payments through fiscal 1999 and included an additional extension of the term of the agreement through June 30, 2004. The Authority has offered to extend the term of the Winthrop PILOT Agreement further, but as of June 30, 2004, the agreement had expired. The Authority and the Town are continuing to negotiate the terms of an extension of the Winthrop PILOT Agreement. In fiscal 1995, the Authority entered into a comprehensive Amended and Restated Payment-in-Lieu-of-Taxes Agreement with the City of Boston, (the "Boston PILOT Agreement"), with a term commencing on March 14, 1995 and ending June 30, 2005. The Boston PILOT Agreement expired on June 30, 2005, and the Authority and the City of Boston are engaged in negotiations to extend the term of the Boston PILOT Agreement. Pursuant to the Boston PILOT Agreement, the Authority paid to the City the sum of $10,000,000 annually, which payment was increased by the annual percentage change in the consumer price index, provided that such increase shall be no less than 3%, nor greater than 7%, per year, less an established credit, per the Boston PILOT Agreement. In August 1997, the Authority and certain community groups entered into agreements which provide for additional payments under the Boston PILOT Agreement, for a minimum of $4.8 million and up to $9.6 million, with payments to be made as milestones associated with modernization of Logan Airport were reached. These additional payments are not subject to annual adjustment.

The Authority's Enabling Act, the 1978 Trust Agreement and the PILOT Agreements provide that annual payments under the PILOT Agreements may not exceed the balance of revenues remaining after deposits to the payment of operating expenses, required deposits to the Interest and Sinking Fund and required deposits to the Maintenance Reserve Fund.

K. Litigation

The Authority is engaged in routine litigation as well as litigation which includes matters involving the terrorist attacks of September 11, 2001, environmental issues, and the Authority's capital program.

K. Litigation, continued

Events of September 11, 2001

On September 11, 2001, terrorists hijacked American Airlines flight 11 and United Airlines flight 175 and flew them into the World Trade Center in New York, N.Y. The terrorist acts caused the deaths of approximately 3,000 persons, unknown numbers of personal injuries, and massive property damage. Both flights originated at Logan Airport.

In September 2001, Congress passed the Air Transportation Safety and System Stabilization Act of 2001, which provides, among other things, that victims who suffered physical injury or death as a result of the events of September 11, 2001 ("9/11") could file a claim with a newly created Victim Compensation Fund (the "Fund"). Those who sought such compensation waived the right to file a civil lawsuit. The Fund does not apply to claims for property damage, business interruption, or the like. Approximately 98% of claimants eligible for compensation from the Fund filed a claim with the Fund.

As of September 24, 2004, there were a large number of lawsuits pending against numerous defendants related to the events of 9/11. These lawsuits include approximately forty-three (43) wrongful death lawsuits, two (2) personal injury lawsuits and nine (9) property damage lawsuits and four (4) cross claims against the Authority and other defendants. The plaintiffs in the property damage lawsuits include, but are not limited to, the Port Authority of New York and New Jersey, owner of the World Trade Center complex (the "WTC"), World Trade Center Properties, LLC, the lessee of the WTC, and insurers for various businesses located in or around the WTC. The statute of limitations for any such lawsuits expired on September 11, 2004.

In November 2001, Congress passed the Aviation and Transportation Security Act ("ATSA"). The Act provides a limitation on liability of various entities, including airport sponsors such as the Authority, for the events of 9/11. Specifically, the liability of an airport sponsor for those events "shall not be in an amount greater than the limits of liability insurance coverage maintained by that . . . airport sponsor". The Authority has insurance in effect to cover these incidents in the amount of $500,000,000 per occurrence and consequently, under ATSA the Authority's liability, if any, would be limited to such amounts. To the Authority's knowledge, the Authority's insurer has received copies of all complaints and Notices of Claim and/or any other form of notification to the Authority by an individual claiming to have suffered a loss.

Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims although the insurer has reserved its rights with respect to (i) the number of occurrences, (ii) indemnification of the Authority against any award of punitive damages, and (iii) the Authority's rights as a named additional insured under other policies of insurance, including policies of the Authority's tenants and licensees.

Absent the limitation in ATSA, the amount of potential damages that could be awarded against the Authority if it were found liable in these lawsuits, based on the total amount of liability claimed, is an amount that would have a significant, materially adverse effect on the financial condition of the Authority. While the Authority cannot predict the outcome of any of these lawsuits or subsequent challenges, if any, to ATSA, it believes it has meritorious defenses to these actions and will continue to review and assess the various claims asserted.

K. Litigation, continued

Environmental Contamination

Historical contamination has also been discovered on various Authority properties located in South Boston. As the owner of the properties, the Authority is a "responsible party" under M.G.L. c.21E for costs of investigating and remediating the contamination at these sites. The full extent of the contamination and necessary remediation measures have not yet been determined; however, the costs could be material to the Authority's results of operations. In addition, the Authority has not yet determined whether and to what extent those costs may be recoverable from other parties responsible for the contamination.

Construction Litigation

The Authority is engaged in a significant capital program which includes a number of large and complex construction projects. It has been the Authority's experience with respect to large, complex projects that, at or near the beneficial occupancy of such projects, or a phase of such projects, contractors, subcontractors, engineers and others often assert large claims against the Authority, which claims are often, in the aggregate, in excess of 20% of the contract amount for such projects. The Authority has vigorously contested such claims and, to date, has settled all of such claims for amounts within the project budget for each such project. The Authority believes that it is likely that large claims will continue to be asserted in the future against the Authority by contractors, subcontractors, consultants and others with respect to large, complex projects now under construction. The Authority will vigorously contest any such claim; however, there can be no assurance that the Authority will prevail or that any damages awarded will be within the project budget for any such project.

Other Litigation

In Rauseo/Medford Realty Trust v. Massachusetts Port Authority, the plaintiff sued to enforce a 1998 agreement that allegedly required the Authority to assist the plaintiff's efforts to convert a vacant warehouse to residential use. While the plaintiff's claim for damages was originally $150,000, it has increased to $3.9 million. In August 2003, the court dismissed the Plaintiff's claim. The Plaintiff appealed, and the parties are awaiting a decision from the Appeals Court.

The Authority also is engaged in numerous matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include such matters as disputes with contractors, subcontractors, engineers and others arising out of construction and maintenance of its properties; disputes over leases and concessions; property, theft and damage claims arising from the Authority's operations, employment matters and workers compensation, as to which the Authority is self-insured. The Authority does not expect that these matters will require any amounts to be paid which, in the aggregate, will be material to the results of operations.

L. Leases

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income including contingent payments received under these provisions was approximately $189,654,000 and $160,279,000 for fiscal years 2005 and 2004, respectively.

L. Leases, continued

Minimum future rental incomes, excluding contingent rentals, from noncancelable operating leases as of June 30, 2005 are:

Year	Amount (in thousands)
2006	$ 71,561
2007	65,905
2008	60,256
2009	52,486
2010	43,163
Thereafter	863,511
Total	$ 1,156,882

The Authority has also entered into operating leases as the lessee. The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 2005:

Year	Amount (in thousands)
2006	$ 18,258
2007	14,981
2008	12,486
2009	10,523
2010	10,078
Thereafter	35,941
Total	$ 102,267

Rent expense was $24,509,000 and $23,475,000 for fiscal years 2005 and 2004, respectively.

M. Interagency Agreements

Investment in Joint Venture

In May 1996, the Authority entered into an interagency agreement with the MHD and Massachusetts Bay Transportation Authority ("MBTA") for the construction of a Regional Transportation Center ("RTC") in Woburn, Massachusetts (the "Interagency Agreement").

Under the terms of the Interagency Agreement, the Authority has paid one third of the cost of acquiring the site and constructing the RTC, and will share in a like proportion in the profits and losses of the RTC.

The RTC opened in May 2001. For fiscal years 2005 and 2004, the RTC's operating losses were $292,500 and $321,600, respectively. The Authority's proportionate share of RTC's operating

M. Interagency Agreements, continued

losses for fiscal years 2005 and 2004 is $97,500 and $107,200, respectively, which is included in "Other expenses" under "Non-Operating Revenues (Expenses)". Separate financial statements from the joint venture may be obtained by writing to:

RTC Joint Venture
c/o Massachusetts Port Authority
One Harborside Drive
East Boston, MA 02108
Attn: Director of Capital Programs and Logan Modernization

Logan Airport Silver Line Transportation Agreement

The Authority entered into an agreement with the Massachusetts Bay Transportation Authority ("MBTA") to provide public transportation between South Station in Boston, Massachusetts and Logan Airport along a route called the Silver Line. Under this agreement the Authority has agreed to purchase eight buses for a cost not-to-exceed $13,300,000. As of June 30, 2005, the Authority has accepted delivery of three buses at a cost of $4,987,500.

In addition, the MBTA and the Authority have entered into a ten year operating and maintenance agreement ending on December 30, 2015. Under this agreement, the MBTA will operate and maintain the Authority's Silver Line buses for a cost of $2 million per year, paid in equal monthly installment. The MBTA will reimburse the Authority a per passenger amount for each passenger loading at Logan Airport.

Service began on June 1, 2005, and while the Authority expects future costs to exceed future revenues, these losses cannot be accurately estimated due to a number of factors. Accordingly no accrual has been made for these anticipated future losses.

N. Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to and destruction of assets, and injuries to third parties and employees. The Authority maintains a risk control effort through a risk transfer program that includes insurance and indemnification in favor of the Authority from third parties. The Authority, as mandated by the 1978 Trust Agreement, maintains a Self-Insurance Account within the Operating Fund. As of June 30, 2005 and 2004, the Self-Insurance Account had assets of $41,570,000 and $41,429,000, respectively, available to pay future claims. During fiscal years 2005 and 2004, the Authority maintained ten different subaccounts to finance its self-insured risk that is funded through internal financing. The Authority carries insurance coverage for property, business interruption, liability and worker's compensation with various deductibles and limits and for other exposure to losses. The self insurance accruals are determined by the Risk Management Department based on insurance claim history and actuarial estimates needed to pay prior and current-year claims. The overall accrual was approximately $6,566,000 and $13,722,000 as of June 30, 2005 and 2004, respectively, and is included as a component of accrued expenses in the accompanying financial statements. Changes in the accrued liability accounts in fiscal year 2005 and 2004 are as follows:

N. Risk Management, continued

Fiscal Year	Beginning Liability	(in thousands) Claims and Changes in Estimates	Claim Payments	Ending Liability
2004	$ 5,591	11,477	(3,346)	$ 13,722
2005	$ 13,722	(2,086)	(5,070)	$ 6,566

There were no significant reductions in insurance coverage from the prior year by major category of risk. In addition, insured claims have not exceeded insurance coverage in the past three years.

As part of the risk financing program at the Authority, risk of loss is retained through deductibles or self-insured retentions. These are used in the property, business interruption, liability and workers' compensation programs, with varying retained amounts ranging from $25,000 to $750,000. These retained risks are funded through the Self Insurance Account.

The most formal programs exist in workers' compensation and third party liability. As a modified self-insurer (both risks involve insurance excess of a substantial self-insured retention), the Authority engages in loss prevention and claims management.

The Authority discharges its obligation to provide workers' compensation coverage, required by Massachusetts General Laws, Chapter 152, by obtaining a license as a self insurer from the Division of Industrial Accidents.

The property policies are currently constructed to provide loss payments for the repair, replacement or reconstruction of the damaged or destroyed property in compliance with the requirements of the 1978 Trust Agreement.

O. Subsequent Events

On September 7, 2005, United filed a reorganization plan with the bankruptcy court. The Authority is analyzing United's reorganization plan to determine its effects on the Authority.

On September 14, 2005, both Delta Air Lines ("Delta") and Northwest Airlines ("Northwest"), filed for bankruptcy protection. Delta and Northwest together accounted for 21.7% of enplanements at Logan Airport in fiscal year 2005, with Delta having 17.0% and Northwest 4.8% of enplanements in fiscal year 2005.

On September 27, 2005, the bankruptcy court approved and made effective the US Airways Plan of Reorganization (the "Plan"). The Plan is based on a merger with America West Airlines. As part of the Plan, US Airways and its affiliates are assuming all leases and executory contracts relating to their operations at Logan Airport.

The financial impact of Delta's, Northwest's and United's bankruptcies cannot yet be determined. The Authority will continue to monitor past due balances due to bankruptcy proceedings, aggressively pursues overdue amounts and bankruptcy claims, and includes an allowance for uncollectible debts in its landing fee rates.

Massachusetts Port Authority
Supplemental Schedule of Combining Balance Sheet
June 30, 2005
(In Thousands)

	Authority Operations	PFC Program	Combined
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 42,715	$ -	$ 42,715
Investments	73,975	-	73,975
Accounts receivable – net of allowance for doubtful accounts	27,199	2,129	29,328
Accounts receivable-grants	43,705	-	43,705
Prepaid expenses and other assets	5,968	579	6,547
Total current assets	193,562	2,708	196,270
NONCURRENT ASSETS			
Assets whose use is limited			
Cash and cash equivalents	114,905	24,326	139,231
Investments	443,199	40,132	483,331
Prepaid expenses and other assets	24,976	1,765	26,741
Investment in joint venture	3,637	-	3,637
Intangible assets, net	40,093	-	40,093
Capital assets			
Completed facilities	2,885,245	619,758	3,505,003
Less accumulated depreciation	(1,214,576)	(84,221)	(1,298,797)
	1,670,669	535,537	2,206,206
Construction in progress	131,867	3,185	135,052
Capital assets, net	1,802,536	538,722	2,341,258
Total noncurrent assets	2,429,346	604,945	3,034,291
TOTAL ASSETS	$ 2,622,908	$ 607,653	$ 3,230,561

(Continued on next page)

Massachusetts Port Authority
Supplemental Schedule of Combining Balance Sheet, Continued
June 30, 2005
(In Thousands)

	Authority Operations	PFC Program	Combined
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	$ 124,777	$ 11,974	$ 136,751
Compensated absences	1,061	-	1,061
Retainage	2,189	1,299	3,488
Current maturities of funded debt	36,445	10,572	47,017
Commercial Paper Notes	-	70,000	70,000
Accrued interest payable	25,187	5,559	30,746
Deferred income	5,635	-	5,635
Total current liabilities	195,294	99,404	294,698
NON-CURRENT LIABILITIES			
Accrued expenses	4,022	-	4,022
Compensated absences	20,155	-	20,155
Retainage	8,756	-	8,756
Funded debt	1,369,997	202,476	1,572,473
Deferred income	13,582	-	13,582
Total noncurrent liabilities	1,416,512	202,476	1,618,988
Total liabilities	1,611,806	301,880	1,913,686
NET ASSETS			
Invested in capital assets, net of related debt	581,551	257,017	838,568
Restricted:			
Bond Funds	161,112	-	161,112
Project Funds	84,831	-	84,831
Passenger Facility Charges	-	48,756	48,756
Other Purposes	106,678	-	106,678
Total Restricted	352,621	48,756	401,377
Unrestricted	76,930	-	76,930
Total net assets	1,011,102	305,773	1,316,875
TOTAL LIABILITIES AND NET ASSETS	$ 2,622,908	$ 607,653	$ 3,230,561

Massachusetts Port Authority
Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2005
(In Thousands)

	Authority Operations	PFC Program	Combined
Operating revenues:			
Logan Airport			
Fees	$ 178,639	$ -	$ 178,639
Rentals	121,976	-	121,976
Concessions	48,195	-	48,195
Other	15,303	-	15,303
	364,113	-	364,113
Hanscom			
Fees	1,877	-	1,877
Rentals	2,718	-	2,718
Concessions	1,440	-	1,440
Other	47	-	47
	6,082	-	6,082
Bridge			
Tolls	27,209	-	27,209
Concessions	193	-	193
Other	50	-	50
	27,452	-	27,452
Maritime Operation			
Fees	39,236	-	39,236
Rentals	2,127	-	2,127
Concessions	87	-	87
Other	153	-	153
	41,603	-	41,603
Maritime Real Estate			
Fees	2,362	-	2,362
Rentals	12,910	-	12,910
Concessions	8	-	8
Other	594	-	594
	15,874	-	15,874
Operating Grants	5,454	-	5,454
Total operating revenues	460,578	-	460,578
Operating expenses:			
Operations and maintenance	211,905	-	211,905
Administration	47,023	-	47,023
Insurance	11,221	-	11,221
Pension	2,141	-	2,141
Payments in lieu of taxes	12,028	-	12,028
Provision for uncollectible accounts	320	-	320
Depreciation and amortization	110,764	25,243	136,007
Total operating expenses	395,402	25,243	420,645
Operating income	65,176	(25,243)	39,933

(Continued on next page)

Massachusetts Port Authority
Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets, Continued
For the Year Ended June 30, 2005
(In Thousands)

	Authority Operations	PFC Program	Combined
Nonoperating revenues (expenses):			
Passenger facility charges	-	35,316	35,316
Investment income	11,412	2,044	13,456
Settlement of Claims	3,354	-	3,354
Other expenses	(98)	(132)	(230)
Gain/(loss) on sale of equipment	60	-	60
Interest expense	(52,054)	(12,566)	(64,620)
Total nonoperating revenue	(37,326)	24,662	(12,664)
Income before capital grant revenue	27,850	(581)	27,269
Capital grant revenue	47,709	-	47,709
Increase in net assets	75,559	(581)	74,978
Net assets, beginning of year	935,543	306,354	1,241,897
Net assets, end of year	$ 1,011,102	$ 305,773	$ 1,316,875

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Comprehensive Annual Financial Report

Statistical

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Massachusetts Port Authority

Statistical Section

Historical Operating and Nonoperating Revenues According to GAAP
Fiscal Year Ended June 30, 2005 (In Thousands)

S-1 Operating and Nonoperating Revenues

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating Revenues										
Fees, tolls and other services	$ 141,201	$ 142,460	$ 158,007	$ 170,839	$ 182,873	$ 187,357	$ 174,508	$ 214,116	$ 236,287	$ 249,323
Rentals	61,432	61,974	66,840	67,992	75,925	82,811	85,053	90,431	115,225	139,731
Concessions	35,235	38,031	43,654	46,461	46,315	45,495	42,741	46,829	45,054	49,923
Other	9,285	9,444	9,463	10,209	10,714	11,237	12,837	15,117	13,539	16,147
Operating grants	-	-	-	-	-	-	2,749	7,314	4,859	5,454
Total Operating Revenues	247,153	251,909	277,964	295,501	315,827	326,900	317,888	373,807	414,964	460,578
Nonoperating Revenues										
PFC revenue*	33,159	32,266	33,874	35,327	36,815	36,324	29,445	29,090	32,845	35,316
Investment income	16,033	15,614	18,808	20,931	25,220	28,982	19,795	11,486	10,239	13,456
Other/Gain on sales of assets	5	384	577	-	139	1,664	17	31	9	60
Settlement of claims	-	-	-	-	-	-	-	-	1,000	3,354
Total Nonoperating Revenues	49,197	48,264	53,259	56,258	62,174	66,970	49,257	40,607	44,093	52,186
Total Revenues	$ 296,350	$ 300,173	$ 331,223	$ 351,759	$ 378,001	$ 393,870	$ 367,145	$ 414,414	$ 459,057	$ 512,764
Capital grant **	$ -	$ -	$ -	$ -	$ -	$ 12,851	$ 15,450	$ 43,994	$ 90,115	$ 47,709

* PFC accrued revenue exclusive of PFC interest earnings.

** During 2001, the Authority adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* GASB Statement No. 33 requires that items of contributed capital be recorded in the statement of revenues, expenses and changes in equity. GASB 33 states that governments should not restate contributed capital arising from periods prior to implementation of this statement.

Massachusetts Port Authority

Statistical Section

Historical Operating and Nonoperating Expenses According to GAAP
Fiscal Year Ended June 30, 2005 (In Thousands)

S-2 Operating and Nonoperating Expenses

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating Expenses										
Operations and Maintenance	$ 108,428	$ 108,355	$ 114,197	$ 132,756	$ 135,468	$ 152,185	$ 155,510	$ 181,765	$ 201,394	$ 211,905
Administration	50,969	50,068	49,889	54,457	54,054	50,965	45,981	41,814	43,094	47,023
Insurance	2,756	2,646	2,414	4,234	2,313	2,880	4,332	8,685	10,234	11,221
Pension Costs	2,610	2,070	2,588	1,533	-	-	-	-	1,834	2,141
Payments in lieu of taxes	10,236	10,526	12,062	13,465	12,031	13,093	12,209	12,559	12,419	12,028
Provision for uncollectible accounts	(514)	577	815	1,255	(100)	14	1,260	1,211	573	320
Depreciation and Amortization *	48,534	52,179	60,406	65,672	75,706	71,389	81,596	102,388	111,726	136,007
Total Operating Expenses	223,019	226,421	242,371	273,372	279,472	290,526	300,888	348,422	381,274	420,645
Nonoperating Expenses										
Interest Expense	31,347	31,435	33,701	30,758	34,323	35,734	40,642	45,806	59,665	64,620
Loss from sale of equipment	-	-	-	98	-	-	-	-	-	-
Termination of interest rate swap	-	-	6,087	-	-	-	-	-	-	-
Other Expense / Arbitrage	-	-	-	-	-	-	-	3,962	176	230
Total Nonoperating Expenses	31,347	31,435	39,788	30,856	34,323	35,734	40,642	49,768	59,841	64,850
Total Expenses	$ 254,366	$ 257,856	$ 282,159	$ 304,228	$ 313,795	$ 326,260	$ 341,530	$ 398,190	$ 441,115	$ 485,495

* Prior to FY2000 depreciation and amortization were treated as nonoperating expenses in the Authority's Financial Statements.

Massachusetts Port Authority

Statistical Section

Historical Operating Results and Debt Service Coverage

Reconciliation Between GAAP and the 1978 Trust Agreement

Fiscal Year Ended June 30, 2005 (In Thousands)

S-3 Operating Results and Debt Service Coverage

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating Revenue:										
Per Financial Statements	$247,153	$251,909	$277,964	$295,501	$315,827	$326,900	$317,888	$373,807	$414,964	$460,578
Adjustments:										
Provision for uncollectible accounts	514	(577)	(815)	(1,255)	100	(14)	(1,260)	(1,211)	(573)	(320)
Other	-	(88)	-	1	-	-	-	-	-	-
Operating grant - State Police details	-	-	-	-	-	-	-	(6,880)	-	-
Operating Revenue:										
Per the 1978 Trust Agreement	247,667	251,244	277,149	294,247	315,927	326,886	316,628	365,716	414,391	460,258
Income on Investments:										
Per Financial Statements	16,033	15,614	18,808	20,931	25,220	28,982	19,795	11,486	10,239	13,456
Adjustments:										
PFC - Trust Agreement	(3,244)	(4,189)	(3,748)	(3,021)	(5,948)	(5,345)	(4,045)	(2,159)	(2,158) (3)	(2,044)
Self Insurance and Other Accounts	(1,141)	(1,213)	(1,322)	(1,375)	(1,524)	(2,033)	(2,791)	(1,365)	(1,513) (3)	(1,924)
Other	-	-	-	-	-	-	-	-	-	-
Park Ex	-	-	-	-	-	-	-	-	-	-
Income on Investments:										
Per the 1978 Trust Agreement	11,648	10,212	13,738	16,535	17,748	21,604	12,959	7,962	6,568	9,488
TOTAL REVENUES										
Per the 1978 Trust Agreement	**$259,315**	**$261,456**	**$290,887**	**$310,782**	**$333,675**	**$348,490**	**$329,587**	**$373,678**	**$420,959**	**$469,746**
Operating Expenses:										
Per Financial Statements	$223,019	$226,421	$242,371	$273,372	$279,472	$290,526	$300,888	$348,422	$381,274	$420,645
Adjustments:										
Insurance	500	619	476	(1,676)	141	10	(905)	358	(1,610)	(2,195)
Pension Adjustments	569	604	640	-	-	-	-	-	-	-
Payments in Lieu of Taxes	(10,236)	(10,526)	(12,032)	(13,465)	(12,031)	(13,093)	(12,209)	(12,559)	(12,419)	(12,028)
Provision for uncollectible accounts	514	(577)	(815)	(1,255)	100	(14)	(1,260)	(1,211)	(573)	(320)
Depreciation and Amortization	(48,534)	(52,179)	(60,406)	(65,672)	(75,706)	(71,389)	(81,597)	(102,388)	(111,726)	(136,007)
Other Expenses	(13)	(26)	(531)	(3,288)	(250)	(1,096)	(1,451)	(1,923)	(12,666)	(2,391)
Other Expense / State Police Details	-	-	-	-	-	-	-	(6,880)	-	-
Administration Expenses	-	-	-	-	-	-	-	-	1,000	2,000
TOTAL EXPENSES										
Per the 1978 Trust Agreement	165,819	164,336	169,703	188,016	191,726	204,944	203,466	223,819	243,280	269,704
Net Revenue:										
Per the 1978 Trust Agreement	**$93,496**	**$97,120**	**$121,184**	**$122,766**	**$141,949**	**$143,546**	**$126,121**	**$149,859**	**$177,678** (1)	**$200,042**
Annual Debt Service (2)	**$47,054**	**$47,061**	**$46,560**	**$56,956**	**$57,444**	**$64,965**	**$69,711**	**$74,089**	**$80,696**	**$76,806**
Annual Debt Service Coverage (2)	1.99	2.06	2.60	2.16	2.47	2.21	1.81	2.02	2.20	2.60

(1) Column does not add due to rounding.

(2) Proceeds of passenger facility charges ("PFCs") are excluded from Revenues because such proceeds have been excluded from Revenues under the 1978 Trust Agreement.
As used in the table, "Annual Debt Service" is equal to the "Principal and Interest Requirements" on Bonds, net of Capitalized Interest and swap proceeds (other than PFC Revenue Bonds, Commercial Paper, Subordinated Revenue Bonds and Special Facilities Revenue Bonds) outstanding for the applicable fiscal year.

(3) Fiscal year 2004 data have been reclassified to conform with the Fiscal year 2005 presentation.

MASSACHUSETTS PORT AUTHORITY
Statistical Section

HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE ACCORDING TO THE 1978 TRUST AGREEMENT
For Fiscal year Ended June 30, 2005
(In Thousands)

S-3A Operating Results and Debt Service Coverage According to the 1978 Trust Agreement

	1996	1997	1998	1999	2000	2001	2002	2,003	2,004	2,005
Revenues:										
Airport Properties - Logan										
Landing Fees	$45,349	$49,053	$50,809	$51,990	$52,930	$56,141	$49,656	$68,969	$75,050	$69,828
Parking Fees	55,892	54,326	58,214	63,931	71,108	73,269	64,007	75,381	88,169	93,030
Utility Fees	11,503	11,695	12,495	11,874	12,488	14,170	13,731	13,577	12,407	15,637
Terminal Rentals	34,604	34,763	39,164	37,689	40,328	40,879	41,771	47,109	66,196	85,663
Non-Terminal Building and Ground Rents	20,826	21,332	21,095	22,444	26,264	29,949	29,851	30,269	31,905	36,116
Concessions	32,879	35,948	41,051	44,462	44,190	44,370	41,371	45,949	43,870	48,345
Other	9,147	9,329	11,155	10,062	10,863	11,236	15,275	14,912	17,501 (5)	19,676
	210,200	216,446	233,983	242,452	258,171	270,014	255,662	296,166	335,098	368,295
Airport Properties - Hanscom	2,358	2,445	2,850	2,943	3,579	4,073	4,949	4,093	5,646	6,219
Total Airport Properties	212,558	218,891	236,833	245,395	261,750	274,087	260,611	300,259	340,744	374,514
Port Properties										
Maritime Operations	23,033	20,574	22,354	30,098	34,689	32,155	31,562	35,056	35,687	42,247
Business Development	5,958	5,407	5,476	7,107	7,279	7,454	7,019	8,055		
Maritime Real Estate (3)									13,931	15,947
	28,991	25,981	27,830	37,205	41,968	39,609	38,581	43,111	49,618	58,194
Bridge	6,118	6,372	12,486	11,647	12,209	13,190	17,436	22,346	24,029	27,550
Total Operating Revenue	247,667	251,244	277,149	294,247	315,927	326,886	316,628	365,716	414,391 (4)	460,258
Investment Income (1)	11,648	10,212	13,738	16,535	17,748	21,604	12,959	7,962	6,568	9,488
Total Revenues	259,315	261,456	290,887	310,782	333,675	348,490	329,587	373,678	420,959	469,746
Operating Expenses (2):										
Airport Properties										
Logan	120,469	121,556	124,572	136,400	139,896	153,010	150,610	163,779	179,970	198,380
Hanscom	3,213	3,201	3,116	3,133	3,394	4,040	3,910	4,642	4,952	6,468
	123,682	124,757	127,688	139,533	143,290	157,050	154,520	168,421	184,922	204,848
Port Properties										
Maritime Operations	28,355	26,312	29,169	34,626	34,720	33,420	34,054	40,067	37,589	42,006
Business Development	6,533	6,285	6,076	6,642	6,413	6,822	7,041	6,620		
Maritime Real Estate (3)									11,198	13,195
	34,888	32,597	35,245	41,268	41,133	40,242	41,095	46,687	48,787	55,201
Bridge	7,249	6,982	6,740	7,215	7,303	7,652	7,852	8,711	9,572	9,655
Total Operating Expenses	165,819	164,336	169,673	188,016	191,726	204,944	203,467	223,819	243,281 (4)	269,704
Net Revenues	$93,496	$97,120	$121,214	$122,766	$141,949	$143,546	$126,120	$149,859	$177,678	$200,042
Annual Debt Service	$47,054	$47,061	$46,560	$56,956	$57,444	$64,965	$69,711	$74,089	$80,696	$76,806
Annual Debt Service Coverage	1.99	2.06	2.60	2.16	2.47	2.21	1.81	2.02	2.20	2.60

(1) Excludes investment income deposited into Construction and PFC Funds.
(2) Includes allocation for all operating expenses related to Authority General Administration.
(3) As part of a reorganization of the Authority the Business Development Department has been transferred to the Maritime Department in fiscal year 2004.
(4) Fiscal year 2004 uncollectible accounts have been reclassified (per Trust) from Operating Expenses to Operating Revenues.
(5) Fiscal year 2004 Logan Airport uncollectible accounts have been adjusted to Logan Other Revenue.

Massachusetts Port Authority
Statistical Section
Insurance Renewals In Place At Fiscal Year Ended June 30, 2005

S-4 Annual Insurance Renewals

TYPE OF COVERAGE	BROKER / UNDERWRITER	PREMIUM	
PROPERTY INSURANCE			
All Risk Property Insurance including Boiler and Machinery and Contractor's Equipment and Tobin Bridge U & O	Hilb Rogal Hobbs*/ Lexington Insurance Company, Royal Indemnity Company Lloyd's of London	$2,248,350	(1)
Property Terrorism Coverage		$520,000	
Hull Insurance - Fireboat, State Police Patrol Boat Including Terrorism Coverage	Customhouse Marine / Continental Insurance Company	$9,884	
LIABILITY INSURANCE			
Aviation General Liabilty Primary and Excess	Hilb Rogal Hobbs**/ ACE Property and Casualty	$3,499,666	
Airport Terrorism Coverage		$854,796	
Comprehensive Marine Liability Terminal Operator's Liability Primary and Excess	Hilb Rogal Hobbs**/ American Home Assurance Company Lexington Insurance Company	$224,800	(2)
Marine Terrorism Coverage		$21,850	
Bridge General Liability Primary, Including Terrorism	Hilb Rogal Hobbs**/ American Home Assurance Company Lexington Insurance Company	$259,740	(3)
Stevedore's Legal Liability Primary and Excess	Hilb Rogal Hobbs**/ American Home Assurance Company	$190,000	(4)
Stevedore's Terrorism Coverage		$21,750	
Automobile Liability Including Bus Liabilty	The McCarthy Companies/ Discovery Managers Ltd.	$277,416	(5)
OTHER COVERAGES			
Crime, Dishonesty Burglary and Robbery	Marsh USA, Inc. Travelers Casualty & Surety	$24,010	
Secretary-Treasurer's Bond	Marsh USA, Inc. Hartford Insurance Company	$2,750	
Customs Bond	Marsh USA, Inc. American Casualty Company	$500	
		8,155,512.00	

* Hilb Rogal Hobbs f/k/a Hobbs Group, LLC

** Hilb Rogal Hobbs f/k/a Sheppard Riley Coughlin

(1) Premium is adjustable based upon replacement of cost of construction projects completed during the policy term at $.0985 per $100 of new construction.

(2) Premium is adjustable based upon a rate of $.215 per $100 of gross receipts.

(3) Premium is adjustable based upon a rate of $13.28 per 1,000 vehicles exceeding 24 Million.

(4) Premium is adjustable based upon a rate of $1.90 per $100 in payroll.

(5) Premium is adjustable based upon a rate of $698.78 per registered vehicles.

Massachusetts Port Authority

Statistical Section

Logan International Airport
Traffic Statistics
Fiscal Year Ended June 30, 2005

S-5 Logan International Airport Traffic Statistics - In-Bound and Out-Bound Traffic

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Aircraft Operations (1)										
Domestic (2)	216,018	218,630	227,781	237,276	247,979	247,298	197,844	190,609	184,836	210,357
International (3)	39,146	38,053	43,273	47,423	43,414	48,699	39,883	39,234	39,799	39,554
Regional	181,309	179,832	195,178	185,963	162,062	167,820	145,749	123,702	132,496	131,074
General Aviation	25,085	28,197	30,142	33,918	40,371	31,687	25,524	27,880	28,890	32,352
Total Operations	461,558	464,712	496,374	504,580	493,826	495,504	409,000	381,425	386,021	413,337
Enplaned Plus Deplaned Passengers										
Domestic (2)										
Enplaned	9,567,226	9,642,929	9,934,156	10,025,973	10,510,792	10,135,550	8,052,257	8,284,960	8,919,352	9,880,689
Deplaned	9,620,396	9,715,636	9,964,942	10,107,352	10,514,006	10,194,716	8,088,769	8,304,108	8,952,770	9,937,869
International (3)										
Enplaned	1,712,139	1,753,328	1,896,499	2,089,101	2,202,592	2,377,178	1,904,246	1,906,562	2,040,079	2,129,374
Deplaned	1,739,503	1,772,306	1,882,741	2,065,148	2,170,689	2,335,959	1,889,185	1,919,516	2,047,766	2,117,983
Regional										
Enplaned	1,084,601	1,017,862	1,183,254	1,134,641	1,086,632	1,145,938	1,069,742	1,058,709	1,276,296	1,371,024
Deplaned	1,054,636	1,016,331	1,159,076	1,112,732	1,058,307	1,140,587	1,047,558	1,042,212	1,240,351	1,307,858
Subtotal	24,778,501	24,918,392	26,020,668	26,534,947	27,543,018	27,329,928	22,051,757	22,516,067	24,476,614	26,744,797
General Aviation										
Enplaned	43,746	49,980	53,681	62,030	64,269	57,985	46,302	47,072	43,234	60,687
Deplaned	44,835	51,268	54,797	58,842	53,878	55,369	45,051	45,471	42,920	60,687
Total Passengers	24,867,082	25,019,640	26,129,146	26,655,819	27,661,165	27,443,282	22,143,110	22,608,610	24,562,768	26,866,171
Average Passengers Per Flight										
Domestic (2)	88.8	88.5	87.4	85.0	84.8	82.2	81.6	88.2	96.7	94.2
International (3)	88.2	92.7	87.3	87.0	100.7	96.8	95.1	97.5	102.7	107.4
Regional	11.8	11.3	12.0	12.1	13.2	13.6	14.5	17.9	19.0	20.4

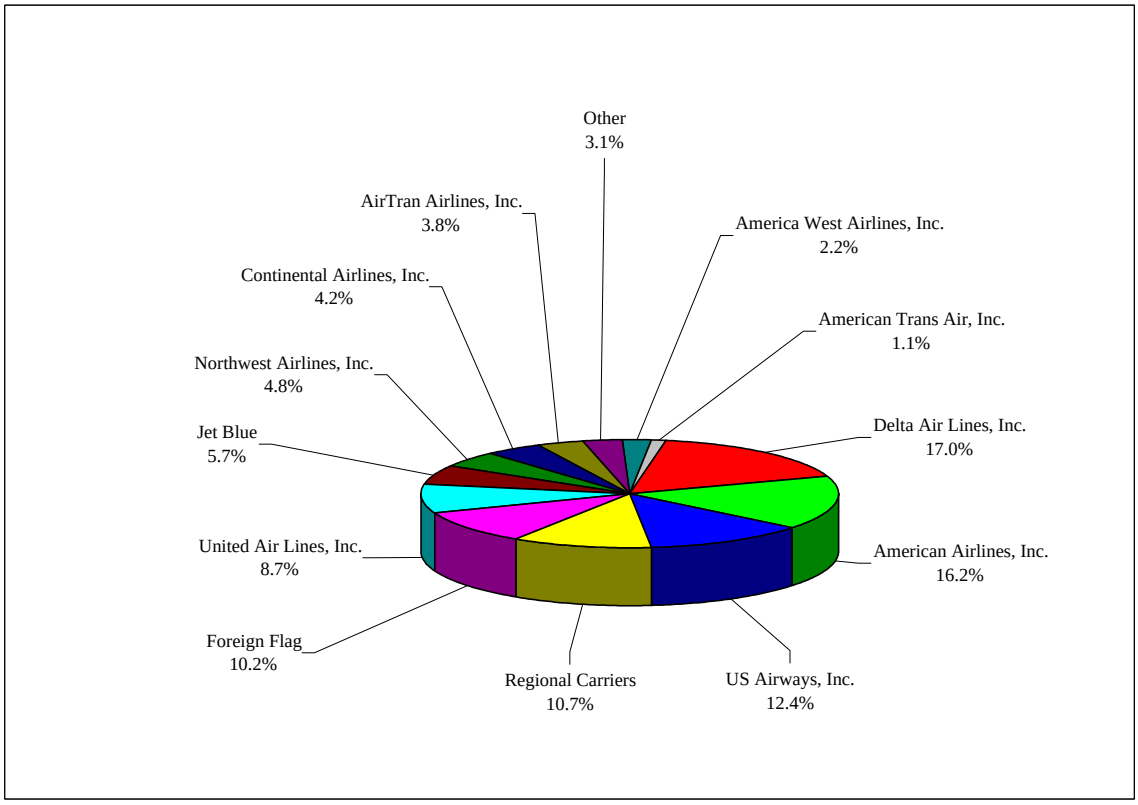
(1) Includes all-cargo flights, but excludes helicopters
(2) Includes jet and charter
(3) Includes jet, charter and international commuter

Massachusetts Port Authority

Statistical Section

Logan International Airport
Market Share of Total Passenger Traffic
Fiscal Year Ended June 30, 2005

S-6 Logan International Airport - Fiscal Year 2005 Market Share of Total Passenger Traffic



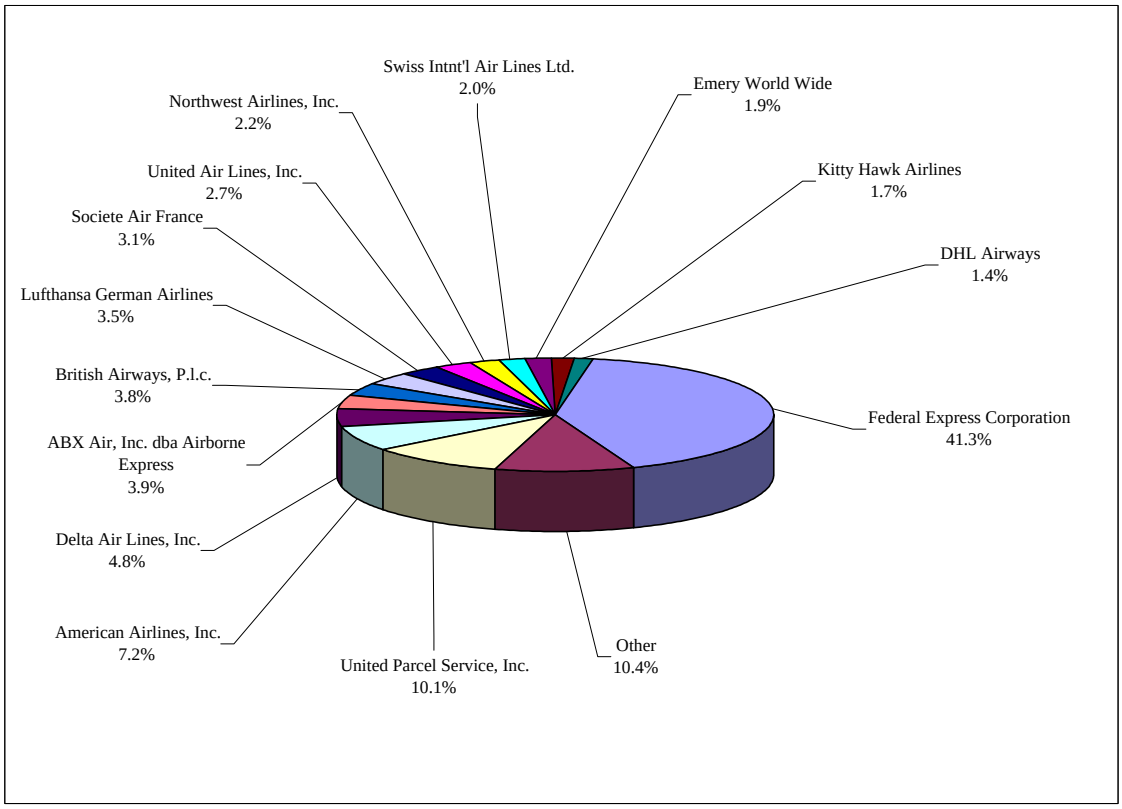
* Percentages do not add to 100% due to rounding.

Massachusetts Port Authority

Statistical Section

Logan International Airport
Percentage of Total Mail, Express Packages and Cargo
Fiscal Year Ended June 30, 2005

S-7 Logan International Airport - Fiscal Year 2005 Percentage of International and Domestic Mail, Express Packages and Cargo



Massachusetts Port Authority

Statistical Section

LOGAN INTERNATIONAL AIRPORT
PASSENGER MARKETS

S-8 Logan International Airport – Passenger Markets

The following table shows the percentage of passengers traveling on U.S. air carrier airlines to or from the Airport and other final domestic destinations for calendar year 2004, as reported by the United States Department of Transportation ("DOT"). International passengers are not included. It also shows the comparative ranking of the top 20 domestic destinations for the same period and for the preceding calendar year.

Calendar 2003 Rank	Calendar 2004 Rank	Market	Calendar 2004 Percentage
1	1	New York, New York / Newark, New Jersey	8.6%
2	2	Washington D.C.	7.4%
3	3	*Florida South	6.2%
5	4	Los Angeles, California	5.9%
4	5	San Francisco, California	5.9%
8	6	Orlando, Florida	5.5%
6	7	Chicago, Illinois	4.3%
7	8	Atlanta, Georgia	4.0%
9	9	Philadelphia, Pennsylvania	3.7%
13	10	Tampa, Florida	3.0%
11	11	Las Vegas, Nevada	2.5%
10	12	Dallas, Texas	2.5%
12	13	Denver, Colorado	2.4%
15	14	Fort Myers, Florida	2.1%
14	15	West Palm Beach, Florida	2.0%
16	16	Minneapolis - St. Paul, Minnesota	1.6%
17	17	San Juan, Puerto Rico	1.5%
20	18	Phoenix, Arizona	1.4%
19	19	Seattle, Washington	1.4%
18	20	Houston, Texas	1.4%
		Total for Cities Listed	73.3%

Source: 2005 Back Aviation Solutions

* Florida South consists of Miami and Fort Lauderdale

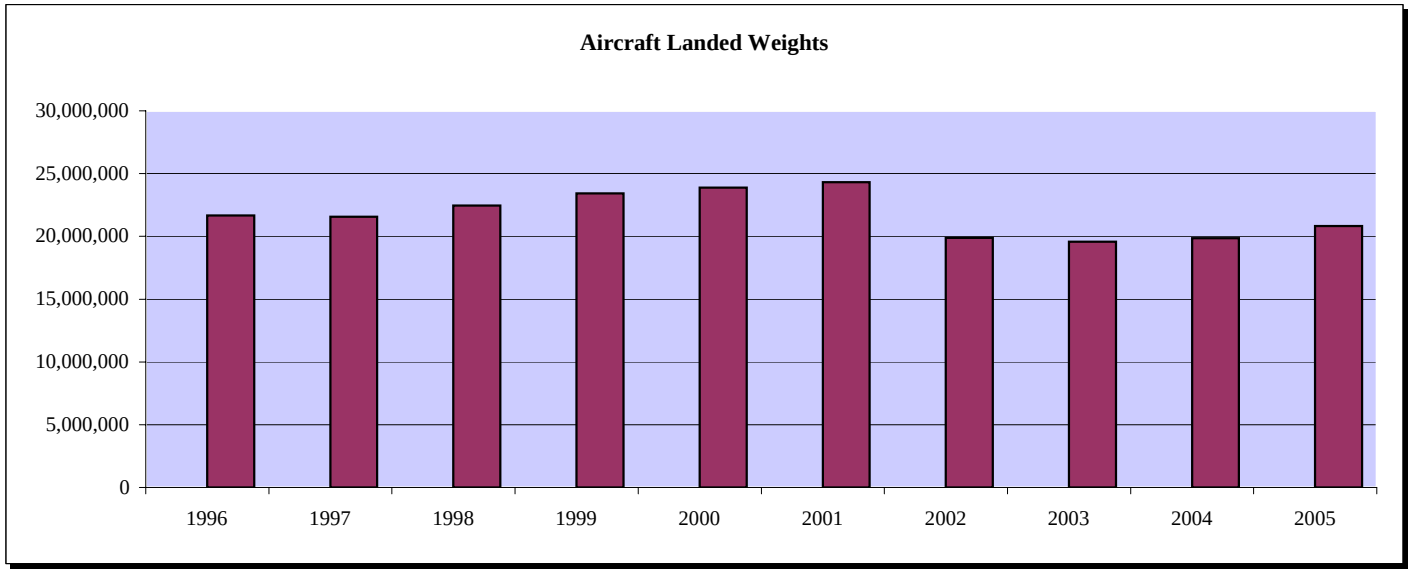
Massachusetts Port Authority

Statistical Section

LOGAN INTERNATIONAL AIRPORT
AIRCRAFT LANDED WEIGHTS
FISCAL YEAR ENDED JUNE 30, 2005 (IN Thousands)

S-9 Logan International Airport Statistics - Aircraft Landed Weights

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Aircraft Landed Weights	21,672,000	21,554,000	22,447,000	23,412,000	23,878,000	24,324,000	19,872,000	19,576,000	19,864,000	20,822,000



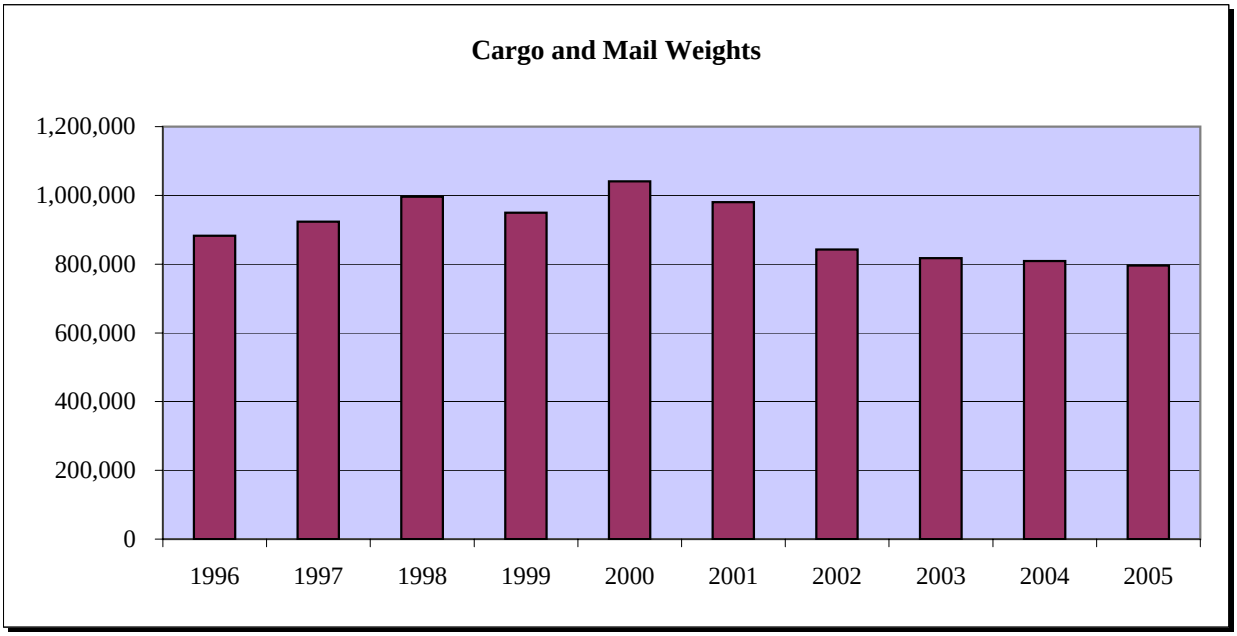
Massachusetts Port Authority

Statistical Section

LOGAN INTERNATIONAL AIRPORT
CARGO AND MAIL WEIGHTS
FISCAL YEAR ENDED JUNE 30, 2005 (IN THOUSANDS)

S-10 Logan International Airport Statistics - Cargo and Mail

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Cargo & Mail	883,001	923,941	996,371	949,338	1,040,877	980,385	842,249	817,843	809,179	796,252



Massachusetts Port Authority

Statistical Section

LOGAN INTERNATIONAL AIRPORT
PASSENGER FACILITY CHARGE PROJECT ACTIVITY

Fiscal Year Ended June 30, 2005 (In Thousands)

S-11 Passenger Facility Charge

PROJECTS	Charge Effective Date	Approval of Use Date	Cumulative Expenditures to Date	Approval of Use Amount
Project: Residential Sound Insulation (RSIP)	01-Nov-93	27-Jan-97	$15,325	$26,990
Project: Logan Modernization Program (LMP) Planning, Preliminary Design and Environmental Analysis	01-Nov-93	24-Aug-93	9,514	10,346
Project: Terminal E Modernization	01-Nov-93	27-Jan-97	20,892	24,568
Project: Roadway System (Circulation)	01-Nov-93	27-Jan-97	124,969	268,306
Project: International Gateway	01-Nov-93	05-Feb-98	101,932	434,106
Project: Elevated Walkways	01-Jan-01	27-Jan-97	110,717	163,037
			$383,349	$927,353

Massachusetts Port Authority

Statistical Section

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CASH GRANT RECEIPTS FROM FEDERAL AGENCIES

Fiscal Year Ended June 30, 2005 (In Thousands)

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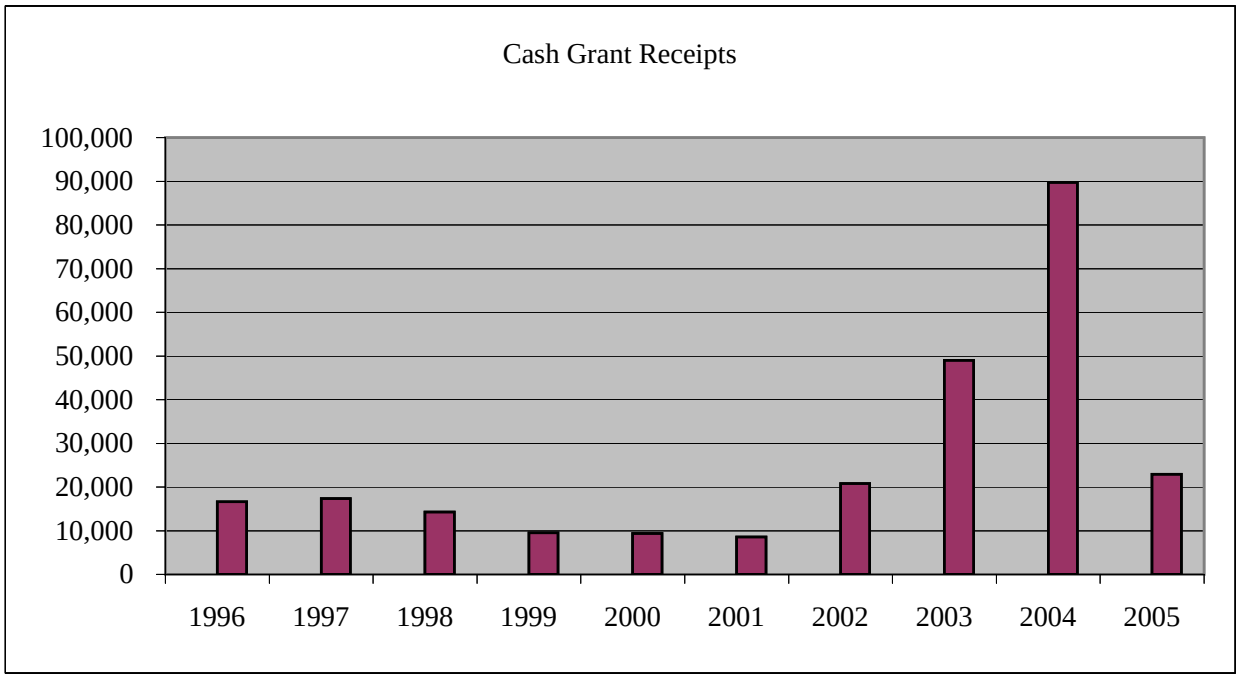
S-12 Cash Grant Receipts From Federal Agencies

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Fiscal Year Receipts	**$16,599**	**$17,329**	**$14,277**	**$9,520**	**$9,370**	**$8,588**	**$20,814**	**$49,039**	**$89,715**	**$22,903**



Certain expenditures for airport capital improvements and residential soundproofing are significantly funded through the Airport Improvement Program (AIP) of the Federal Aviation Administration (FAA). The Transportation Security Administration (TSA) also provides grant funds for security related programs at Logan Airport. In fiscal year 2004, the TSA paid the Authority $58 million, representing two installments under a letter of intent to fund a portion of the cost of the baggage screening program at Logan Airport.

The majority of the operating grant reimbursements were derived from the TSA and the Federal Emergency Management Agency.

Massachusetts Port Authority

Statistical Section

PORT OF BOSTON
CARGO AND PASSENGER ACTIVITY
Fiscal Year Ended June 30, 2005

S-13 Cargo and Passenger Activity

Port Activity	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Containers (1)	73,083	72,291	78,808	83,544	83,407	74,901	72,537	86,149	93,627	103,631
Cruise Passengers	69,075	69,905	109,708	115,625	156,769	186,070	246,539	207,254	200,836	192,869
Automobiles (2)	36,010	62,282	72,333	74,060	87,973	89,348	80,070	29,559	12,198	10,657
Bulk Tonnage	355,042	205,621	248,204	217,103	168,600	158,705	207,583	162,824	144,304	189,517

(1) Does not include over-the-road volumes.
(2) Includes vehicles entered by over-the-road means through September 1998: does not include vehicles entered by over-the-road means after September 1998.

Massachusetts Port Authority

Statistical Section

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PORT OF BOSTON

PRINCIPAL CUSTOMERS

Fiscal Year Ended June 30, 2005

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S-14 Principal Customers

Direct Service	Shipping Lines	Cruise Lines	Large Customs House Brokers
China Ocean Shipping Co.	CMA-CGM	Carnival	A.N. Deringer
CMA - CGM	China Ocean Shipping Co	Clipper Cruise	Albatrans, Inc.
Columbia Coastal Transport	Chilean Line	Crystal Cruises	BDP International, Inc.
Halship, Inc.	Evergreen	Cunard	Boston Bay Brokers Inc.
Hanjin Shipping	Hamburg Sued	Hapag Lloyd	C.H. Powell Company
K-Line	Hanjin	Holland America	DHL Danzas
Mediterranean Shipping Corp.	Hapag Lloyd	Norwegian Cruise Line	Dolliff & Company, Inc.
Yang Ming Line	Hatsu	P&O	Dynasty International, Inc.
	K Line	Peter Deilmann	EGL Eagle Global Logistics
	Lloyd Triestino	Princess Line	Expeditors Int'l
	Maersk	Raddisson Seven Seas	Fedex Trade Networks
	Meditteranean Shipping Co.	Royal Caribbean	Hellmann Worldwide Logistics, Inc.
	NYK Line	Silversea Cruise	J.F. Moran Co., Inc.
	OOCL		Kuehne & Nagel, Inc.
	P&O Nedlloyd		Liberty International
	Safmarine		Magic Customs Brokers, Inc.
	Yang Ming		OceanAir, Inc
	Zim Line		Panalpina, Inc.
			Savino Del Bene, Inc.
			Schenker International, Inc.
			UPS Supply Chain Solutions

Massachusetts Port Authority

STATISTICAL SECTION

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TOBIN MEMORIAL BRIDGE

Fiscal Year Ended June 30, 2005

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S-15 Bridge Statistics (In-Bound)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Resident: Vehicles with Sticker *	1,386,017	165,360	348,192	388,825	395,526	388,815	391,961	512,014	585,811	648,510
Class 1 Passenger *	10,300,122	11,762,019	10,468,960	9,888,389	10,025,617	10,898,566	10,218,593	9,817,665	9,427,512	8,164,954
Total Passenger Vehicles	11,686,139	11,927,379	10,817,152	10,277,214	10,421,143	11,287,381	10,610,554	10,329,679	10,013,323	8,813,464
Class 2 - 6 Commercial **	380,809	357,179	782,599	675,747	821,852	990,900	924,235	909,273	885,858	796,425
Total Paying Vehicles	12,066,948	12,284,558	11,599,751	10,952,961	11,242,995	12,278,281	11,534,789	11,238,952	10,899,181	9,609,889
MBTA (Massachusrtts Bay Transportation Authority)	55,957	49,753	56,567	62,239	67,471	68,358	54,620	30,883	23,302	48,231
Non-Revenue	70,243	73,531	64,478	53,239	41,425	43,264	43,878	48,183	61,827	65,093
Total Non-Paying Vehicles	126,200	123,284	121,045	115,478	108,896	111,622	98,498	79,066	85,129	113,324
TOTAL VEHICLES	12,193,148	12,407,842	11,720,796	11,068,439	11,351,891	12,389,903	11,633,287	11,318,018	10,984,310	9,723,213

* Prior to January 1996 all motorists having passenger vehicles could purchase a Bridge sticker and pay a discounted toll. This program was discontinued and only residents of Charlestown and Chelsea , who qualified, were allowed a discounted toll.

** Beginning in Fiscal Year 1995 commercial vehicles hauling hazardous materials were no longer allowed to use the Bridge.

Comprehensive Annual Financial Report

Annual Disclosure

massport

Annual Disclosure

STATEMENT OF
ANNUAL FINANCIAL INFORMATION
AND OPERATING DATA
of the
MASSACHUSETTS PORT AUTHORITY
FOR FISCAL YEAR 2005

INTRODUCTION

This Statement of Annual Financial Information and Operating Data dated as of November 17, 2005 (the "Annual Disclosure Statement") of the Massachusetts Port Authority (the "Authority") is prepared and submitted in accordance with the requirements of the Continuing Disclosure Agreement, dated as of August 1, 1997 (the "Continuing Disclosure Agreement"), between the Authority and U.S. Bank National Association (successor to State Street Bank and Trust Company), as trustee (the "Trustee"), and the Trust Agreement dated as of May 1, 1997 between the Authority and the Trustee relating to the BOSFUEL Bonds (as defined below). Set forth below is certain financial information and operating data relating to the Authority for the fiscal year ended June 30, 2005 ("fiscal year 2005") updating the financial information and operating data presented in the Authority's Statement of Annual Financial Information and Operating Data dated as of November 16, 2004 (the "2004 Annual Disclosure Statement"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Authority's Official Statement dated May 5, 2005 (the "2005 Official Statement"). This Annual Disclosure Statement is part of the Authority's Comprehensive Annual Financial Report dated November 17, 2005 (the "CAFR") for fiscal year 2005 and the remaining sections of the CAFR are incorporated herein by reference. The Authority's audited financial statements for fiscal year 2005 and comparative information for fiscal year 2004, prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), with a report thereon by PricewaterhouseCoopers LLP, independent auditors, are also included as the financial section of the CAFR. The 2005 Official Statement and the 2004 Annual Disclosure Statement are each on file with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR").

This Annual Disclosure Statement applies to the following Series of Bonds issued by the Authority (collectively, the "Bonds"):

Massachusetts Port Authority Revenue Bonds, Series 2005-A (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 2005-B (AMT) (Periodic Auction Reset Securities)
Massachusetts Port Authority Revenue Refunding Bonds, Series 2005-C (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 2003-A (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 2003-B (Auction Rate Securities) (AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 2003-C (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1999-C (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1999-D (AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 1998-A (Non-AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 1998-B (AMT)
Massachusetts Port Authority Taxable Revenue Refunding Bonds, Series 1998-C
Massachusetts Port Authority Revenue Bonds, Series 1998-D (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1998-E (AMT)
Massachusetts Port Authority Revenue Bonds, Series 1997-A
Massachusetts Port Authority Revenue Bonds, Series 1997-B
Massachusetts Port Authority Revenue Refunding Bonds, Series 1997-C

Massachusetts Port Authority Special Facilities Revenue Bonds (BOSFUEL Project), Series 1997

The Authority has issued 16 series of bonds pursuant to the Trust Agreement dated as of August 1, 1978, as supplemented and amended (the "1978 Trust Agreement") between the Authority and the Trustee which remain outstanding as of the date hereof. On May 12, 2005, the Authority issued $424,025,000 of its revenue and revenue refunding bonds. The Authority's Revenue Bonds, Series 2005-A (the "2005-A Bonds") were issued to finance a portion of the Authority's capital program. The Authority's Revenue Refunding Bonds, Series 2005-C (the "2005-C Bonds") were issued to advance refund a portion of the Authority's Revenue Bonds, Series 1997-A, 1998-D and 1999-C. On May 25, 2005, the Authority issued $29,725,000 of its Revenue Bonds, Series 2005-B (AMT) Periodic Auction Reset Securities (the "2005-B Bonds" and, with the 2005-A Bonds and the 2005-C Bonds the "2005 Bonds"). The 2005-B Bonds were issued to finance a portion of the Authority's capital program. On December 29, 2000 and January 2, 2001, respectively, the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of $74,000,000 (collectively, the "Subordinated Revenue Bonds"). The Subordinated Revenue Bonds are payable solely from amounts on deposit in the Improvement and Extension Fund established under the 1978 Trust Agreement and in a separate account not subject to the pledge of the 1978 Trust Agreement. The Subordinated Revenue Bonds are subordinate to all of the revenue bonds issued prior to the date hereof by the Authority pursuant to the 1978 Trust Agreement.

On June 16, 1999, the Authority issued its $67,665,000 PFC Revenue Bonds, Series 1999-A (Non-AMT) and $181,690,000 PFC Revenue Bonds, Series 1999-B (AMT) (collectively, the "PFC Bonds") pursuant to a PFC Revenue Bond Trust Agreement dated as of May 6, 1999, as supplemented and amended (the "PFC Trust Agreement"), between the Authority and The Bank of New York, as trustee (the "PFC Trustee"). Pursuant to the Continuing Disclosure agreement dated as of May 6, 1999 (the "PFC Disclosure Agreement") between the Authority and The Bank of New York, the Authority is also issuing as of the date of the CAFR its Statement of Annual Financial Information and Operating Data for fiscal year 2005 (the "2005 PFC Disclosure Statement") with respect to the PFC Bonds. The 2005 PFC Disclosure Statement has been filed with each NRMSIR and is also available from the Authority and the PFC Trustee.

On August 16, 2001, the Authority issued its Special Facilities Revenue Bonds (Delta Air Lines, Inc. Project), Series 2001A, 2001B and 2001C (collectively, the "Delta Project Bonds") in aggregate principal amount of $497,585,000. On March 1, 2001, the Authority issued its Special Facilities Revenue Refunding Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 2001-A (Tax-Exempt) and 2001-B (Taxable) (collectively, the "Hyatt Bonds"), a portion of the proceeds of which were applied to refund all of the Authority's outstanding Special Facilities Revenue Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 1990. On December 9, 1999, the Authority issued $80,500,000 of its Special Facilities Revenue Bonds (United Air Lines, Inc. Project), Series 1999A (the "United Project Bonds"). As a result of United Air Lines' filing for bankruptcy protection in December 2002, the trustee for the United Project Bonds has issued notice of an event of default. On October 21, 1999, the Authority issued its $33,120,000 Special Facilities Revenue Bonds (US Airways Project), Series 1999 (the "1999 US Airways Project Bonds") and on January 2, 1997, the Authority issued its $48,980,000 Special Facilities Revenue Bonds (USAir Project), Series 1996A (the "1997 USAir Project Bonds" and collectively with the 1999 US Airways Project Bonds, the "US Airways Project Bonds").

The Authority did not undertake any ongoing disclosure obligations in connection with the issuance of the Subordinated Revenue Bonds, the Delta Project Bonds, the Hyatt Bonds, the United Project Bonds or the US Airways Project Bonds. On May 15, 1997, the Authority issued its $111,320,000 Special Facilities Revenue Bonds (BOSFUEL Project), Series 1997 (the "BOSFUEL Bonds").

Copies of the 2005 Official Statement and the Authority's Official Statement dated May 9, 1997 relating to the BOSFUEL Bonds (together, the "Official Statements") are available from the Authority and the Municipal Securities Rulemaking Board ("MSRB"). For a more complete description of the Authority and the Bonds, reference is made to the Official Statements.

The Authority's principal office is located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128. Its telephone number is (617) 428-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Chief Financial Officer and Director of Administration and Finance/Secretary-Treasurer.

Annual Disclosure Statement

This Annual Disclosure Statement is of limited scope. It contains only an updating of certain financial information and operating data described below. ***Except as expressly noted, all information presented in this Annual Disclosure Statement is on the basis required under the 1978 Trust Agreement, and not on the basis of GAAP.*** For a comparison of the Authority's financial results under the 1978 Trust Agreement and GAAP, please refer to Tables S-3 and S-3A (Historical Operating Results and Debt Service Coverage Reconciliation between GAAP and the 1978 Trust Agreement) set forth in the statistical section of the CAFR. The information set forth herein does not contain all material information concerning the Bonds or the Authority necessary to make an informed investment decision. This Annual Disclosure Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds.

This Annual Disclosure Statement is submitted pursuant to the Continuing Disclosure Agreement and the obligations of the Authority entered into in 1997 in connection with the BOSFUEL Bonds. The intent of the Authority's undertaking under the Continuing Disclosure Agreement is to provide on a continuing basis for the benefit of the owners of the Bonds and any other bonds of the Authority which are designated by resolution of the Authority as subject to and having the benefits of the Continuing Disclosure Agreement the information described in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934. Pursuant to the Continuing Disclosure Agreement, the Authority has agreed with respect to the Bonds to provide, or cause to be provided, certain annual financial information and operating data, prepared on the basis of the 1978 Trust Agreement, and notices of material events. In addition, in connection with the issuance of the BOSFUEL Bonds, the Authority undertook a limited obligation to provide annual updated data with respect to certain information regarding the Airport. The Authority reserves the right to modify the disclosure required under the Continuing Disclosure Agreement, or the format of such disclosure, so long as any such modification is permitted by the Rule.

The purpose of the Authority's undertaking is to conform to the requirements of the Rule and not to create new contractual or other rights for the Trustee or for the underwriters of the Bonds, any registered owner or beneficial owner of Bonds, any municipal securities broker or dealer, any potential purchaser of the Bonds, the SEC, or any other person. The sole remedy in the event of any actual or alleged failure by the Authority to comply with any provision of the Continuing Disclosure Agreement shall be an action for the specific performance of the Authority's obligations thereunder and not for money damages in any amount. Any failure by the Authority to comply with any provision of such undertaking shall not constitute an event of default under the 1978 Trust Agreement or any other instrument relating to the Bonds.

UPDATED OPERATING INFORMATION

Airport Properties

Boston-Logan International Airport (the "Airport") continues to be the principal source of the Authority's Revenues, Net Revenues and net income, and is the dominant factor in the determination of the Authority's financial condition. In fiscal year 2005, the Airport accounted for 78.4% of the Authority's Revenues and 84.9% of the Authority's Net Revenues, as defined in the 1978 Trust Agreement. For additional information regarding activities at the Airport Properties during fiscal year 2005, please refer to pages 2-3 to the Letter of Transmittal to the CAFR and to statistical information presented in Tables S-5, S-6, S-7, S-8, S-9 and S-10. Tables S-5, S-9 and S-10 in the statistical section of the CAFR summarize Airport traffic statistics for the ten most recent fiscal years.

Logan Airport plays a leading role in New England's air service infrastructure. In calendar year 2004, based upon total passenger volume, Logan Airport was the most active in New England, the 18th most active in the United States and the 34th most active in the world, according to the Airports Council International ("ACI"). Enplaned plus deplaned passengers at the Airport for fiscal year 2005 totaled approximately 26.7 million passengers, excluding general aviation. This is a 9.3% increase from the 24.5 million passengers that used the Airport in fiscal year 2004.

The primary destinations of passengers using the Airport for calendar year 2004 were all Florida destinations (18.8%), the New York/New Jersey area (8.6%) and Washington, DC/Baltimore (7.4%). 13.2% of domestic passengers traveled to the West Coast cities of San Francisco, Los Angeles, and Seattle.

In fiscal year 2005, international passengers (including those traveling on foreign flag and regional carriers) accounted for 15.8% of passenger traffic, or approximately 4.2 million passengers. The shares of international passengers at the Airport were 61.2% for Europe and the Middle East, 15.3% for Canada, and 21.3% for Bermuda and the Caribbean. In fiscal year 2005, the top five international origin-destination markets were London, Paris, Toronto, Dublin/Shannon, and Frankfurt. International passenger traffic fell nominally as a percentage of overall traffic in 2002, but grew by 12.0% from fiscal year 2002 to fiscal year 2005. Actual international passenger traffic grew by 3.9% from fiscal year 2004 to fiscal year 2005.

In fiscal year 2005, regional airlines accounted for approximately 10.0% of total passenger traffic at the Airport, or approximately 2.7 million passengers. The number of regional passengers declined by 8.1% from fiscal year 2001 to 2003, but grew from fiscal year 2004 to fiscal year 2005 by 6.4%. As of June 30, 2005, American Eagle, owned by AMR Corp., parent of American Airlines, accounted for the greatest share of all domestic regional traffic at the Airport, with 42.9% of domestic regional passengers, followed by COMAIR Delta Connection with 21.5 % and the US Airways Express group of regional carriers, which carried 21.1% of domestic regional passengers.

Low-cost carriers are playing a larger role at Logan Airport and throughout New England. As of June 30, 2005, the low-cost carriers providing service at the Airport were AirTran Airlines, America West, ATA, Independence Air, JetBlue Airways, and Song (Delta's low fare subsidiary). They served 19 non-stop destinations and carried 20.6% of the Airport's passengers in fiscal year 2005. Song has become the fifth largest carrier at the Airport and JetBlue was the sixth largest carrier in terms of passenger share for fiscal year 2005.

In fiscal year 2005, total combined cargo and mail volume was approximately 796.3 million pounds. Between fiscal years 2001 and 2005, the total volume of air cargo and mail handled at the

Airport decreased by 18.8%, and the volume in fiscal year 2005 decreased by 1.6% from fiscal year 2004. From fiscal year 2004 to fiscal year 2005, air cargo (small package/express and freight) remained relatively unchanged. A large percentage of the total volume of air cargo for the period was attributable to integrated small package/express carriers, including Federal Express, United Parcel Service, Emery World Wide, ABX Air, Inc., DHL Airways, Air Transport International, and Kitty Hawk Airlines. Integrated carriers accounted for 61.4% of total domestic and international cargo volume in fiscal year 2005, compared to 60.2% in fiscal year 2004.

SELECTED FINANCIAL DATA

Table S-3A set forth in the statistical section of the CAFR reflects Revenues and Operating Expenses for the ten most recent fiscal years, prepared in accordance with accounting principles required by the 1978 Trust Agreement. Information for each of the ten fiscal years in the period ending June 30, 2005 is derived from the Authority's financial statements for the respective fiscal years. (Note that in certain cases information from prior fiscal years has been conformed to comply with current GASB standards.) Financial statements of the Authority for fiscal year 2005 and comparative data for fiscal year 2004, together with the report thereon of PricewaterhouseCoopers LLP, independent auditors, are included in the CAFR.

Tables S-3 and S-3A of the CAFR show the calculation of Annual Debt Service Coverage of the Authority, as provided under the 1978 Trust Agreement, which equals the ratio of the Net Revenues of the Authority to the Annual Debt Service. "Net Revenues" is defined in the 1978 Trust Agreement as the excess of Revenues over Operating Expenses; provided that for the purpose of the calculations, proceeds of passenger facility charges ("PFCs") have been excluded from Revenues because such proceeds have been excluded from Revenues under the 1978 Trust Agreement. PFCs are pledged to secure the PFC Bonds, pursuant to the PFC Trust Agreement, and certain specific information pertaining to the PFC Bonds, as required by the PFC Disclosure Agreement, is set forth in the separate 2005 PFC Disclosure Statement. As used in the tables, "Annual Debt Service" is equal to the "Principal and Interest Requirements" on Bonds (other than BOSFUEL Bonds) outstanding for the applicable fiscal year.

MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATING RESULTS

Prepared in Accordance with the 1978 Trust Agreement

Total Revenues in fiscal year 2005 were $469.7 million, compared to $421.0 and $373.7 million in fiscal years 2004 and 2003, respectively, while Operating Expenses were $269.7 million in fiscal year 2005 compared to $243.3 and $223.8 million in fiscal years 2004 and 2003, respectively, resulting in Net Revenues of $200.0 million in fiscal year 2005. Logan Airport is the primary source of the Authority's Revenues, Net Revenues and Operating Expenses. For a discussion of the differences between the accounting principles required by the 1978 Trust Agreement and generally accepted accounting principles, see Note B to the Financial Statements. Revenues and Net Revenues do not include PFC revenues, which are required under federal law to be applied to certain capital projects at the Airport and are not pledged for the benefit of holders of the Bonds. PFC revenues, exclusive of interest earnings, totaled $29.1 million in fiscal year 2003, $32.8 million in fiscal year 2004 and $35.3 million in fiscal year 2005.

The Authority derives revenues, in part, from activity-based sources, such as parking, rental car commissions, landing fees and international passenger fees at Logan Airport, Bridge tolls, and cargo tariffs and other fees for use of the Port of Boston. Furthermore, following September 11, 2001, the FAA instituted numerous security measures for all U.S. airports and seaports, including Logan Airport,

Hanscom Field and Worcester Regional Airport, and the Port of Boston, which increased the Authority's Operating Expenses. These measures include, but are not limited to, prohibiting all unticketed persons beyond security checkpoints, enhancing the search and screening of all passengers and baggage, increasing the number of security and law enforcement personnel, and restricting the parking of vehicles near terminals, including the closing of certain parking facilities at Logan Airport for a period of time.

Airport Properties

Airport Properties Net Revenues (Airport Properties Revenues less Airport Properties Operating Expenses), increased from fiscal year 2004 to fiscal year 2005 by 8.9%. The number of passengers using Logan Airport (excluding general aviation) in fiscal year 2005 was 9.3% greater than the prior fiscal year. Landed weights were 4.8% greater than the prior fiscal year. Parking revenues were 5.5% greater than revenues from fiscal year 2004, due in part to an increase in the average length of stay, as well as the opening of new surface parking spaces adjacent to Terminal E. Logan Airport generated approximately $368.3 million of Revenue and incurred $198.4 million of Operating Expenses in fiscal year 2005, compared to $335.1 million and $296.2 million of Revenues and $180.0 million and $163.8 million of Operating Expenses in fiscal years 2004 and 2003, respectively. Operating revenue and expense figures for Logan Airport stated in this paragraph do not include certain items, particularly expense items, such as interest, depreciation and amortization, properly allocable to Logan Airport under GAAP.

Unlike many airport operators, the Authority is not constrained by contractual arrangements with the air carriers serving the Airport governing the incurrence of aeronautical costs and the recovery of such costs in the landing fee and terminal rentals. Instead, landing fees and terminal rentals are set annually by the Authority on a compensatory basis to cover direct and allocated capital, administration, maintenance and operating costs. Accordingly, each October, the Authority establishes the landing fee for the Airport per thousand pounds of landed weight and the rental rates for the terminals, based upon historic capital costs and projected landed weights, and the budgeted direct and allocable indirect operating costs of providing these facilities for that fiscal year, plus an adjustment for the actual versus the prior year's budgeted revenues and expenses.

Landing Fees. Landing fee revenues at the Airport increased from $69.0 million in fiscal year 2003 to $75.1 million in fiscal year 2004 and decreased to $69.8 million in fiscal year 2005 due to a $0.51 reduction in the landing fee in fiscal year 2005. Landed weights increased from 19,576,000 thousand pounds in fiscal year 2003 and 19,864,000 thousand pounds in fiscal year 2004, to 20,822,000 thousand pounds in fiscal year 2005. During this period, the landing fee rate per thousand pounds of landed weight decreased from a peak of $3.76 in fiscal year 2003 to $3.58 in fiscal year 2004 to $3.07 in fiscal year 2005. The Authority's established practice is to include any shortfall (or surplus) in the landing fees collected compared to the actual cost of operating the airfield for the prior year in the landing fee for the next succeeding year. The landing fee for fiscal year 2006, established as of October 1, 2005, is $3.78 per thousand pounds of landed weight.

Parking Fees. Airport parking revenues (including Logan Express) increased from $75.4 million in fiscal year 2003 and $88.2 million in fiscal year 2004 to $93.0 million in fiscal year 2005. The number of commercial parking spaces at the Airport is subject to a limitation imposed by the EPA.

Rentals. All leases with air carriers for terminal space at the Airport currently provide that the Authority may revise rental rates periodically, at the discretion of the Authority, to recover the actual direct and indirect capital and operating costs for such leased space. In addition, leases with certain carriers which are obligors of special facilities revenue bonds issued by the Authority and secured by a pledge of certain lease revenues are required to pay rent directly to the applicable trustee in an amount at least sufficient to pay the debt service on such bonds. In August 2001, the Authority entered into a long-

term lease with Delta of Terminal A with a term scheduled to end on April 1, 2010, which may be extended to 2030, pursuant to which Delta redeveloped Terminal A. The new Terminal A was substantially completed and opened for service on March 16, 2005. The Authority has entered into a lease of the western wing of Terminal B with US Airways for a term scheduled to end September 30, 2023, and the Authority entered into a similar lease of a significant portion of the eastern wing of Terminal B with American Airlines for a term expiring in 2010, which may be extended to 2015. In fiscal year 2005, rentals from Terminal A were $6.0 million, rentals from Terminal B were $22.0 million. The Authority does not have long-term written agreements with most of the airline tenants in Terminals C, D and E. Rental rates for such Terminals are set on a compensatory basis to recover direct and allocated capital, administration, maintenance and operation costs. Rental revenue from these three Terminals totaled $57.7 million in fiscal year 2005. Rental income from buildings other than Terminals totaled $26.3 million in fiscal year 2005 and income from land rentals produced an additional $9.8 million.

Concessions. Revenues from concessions decreased from $45.9 million in fiscal year 2003 to $43.9 million in fiscal year 2004 and increased to $48.3 million in fiscal year 2005. Concession revenues include payments made by rental car companies which operate at the Airport and commissions from the following concessions: food and beverage, news and gifts, duty free shops, specialty shops, and other concessions.

Hanscom Field. During fiscal year 2005, Revenues from operations at Hanscom Field represented approximately 1.3% of the total Revenues of the Authority, and Hanscom's Operating Expenses constituted approximately 2.4% of the Authority's Operating Expenses. In fiscal year 2005, Hanscom Field generated $6.2 million of Revenue, with Operating Expenses of $6.5 million, yielding an operating deficit before debt service or other capital expenses of approximately $249,000. Operating revenue and expense figures for Hanscom Field stated in this paragraph do not include certain items, particularly expense items, such as interest, depreciation and amortization, properly allocable to Hanscom Field under GAAP.

Worcester Regional Airport. All payments made under the Worcester OA have been made from cash in the Improvement and Extension Fund.

Port Properties

As part of the reorganization of the Authority, responsibility for the properties formerly managed by the Business Development Department, which include both maritime/industrial properties and development properties in former port backlands, was transferred to the Maritime Department.

Results of operations of the Authority's Maritime Department and those properties formerly managed by the Business Development Department are separately stated through fiscal year 2003. Beginning in fiscal year 2004, results are restated as Maritime Operations and Maritime Real Estate. Maritime Operations includes container activity, cruise passenger activity and automobile shipping (all previously under Maritime). Maritime Real Estate includes all of the former Business Development Department's real estate assets and some land/building assets which were previously reported under Maritime. The Authority has traditionally experienced annual Port Properties operating deficits (Maritime and Business Development Revenues less Maritime and Business Development Operating Expenses). These deficits reflect the allocation of a portion of Authority-wide administrative and overhead costs as well as all direct costs.

In fiscal year 2005 the Revenue attributable to the Port Properties totaled approximately $58.2 million, or approximately 12.4% of the Revenues of the Authority, and the Port Properties accounted for

approximately $55.2 million of Operating Expenses, or approximately 20.5% of the Authority's Operating Expenses. In fiscal year 2005, the Port Properties realized a surplus of $3.0 million in Net Revenues, versus a surplus of $831,100 in fiscal year 2004. The Net Revenues from Maritime Operations was $0.2 million for fiscal year 2005 while the Net Revenue from Maritime Real Estate was $2.8 million in fiscal year 2005. Over the period shown, the Authority has pursued a policy of seeking compensatory pricing, aggressively negotiating new lease terms when possible, and revenue development through more intense use of the Port Properties and a marketing program designed to increase the volume of containers handled and the number of cruise passengers who embark or disembark in Boston, in an effort to mitigate these deficits.

Maritime Operations. Maritime Operations experienced an operating surplus of $0.2 million dollars in fiscal year 2005. Operating Expenses for fiscal year 2005 increased primarily due to the increased volume of activity at container facilities (for which there was offsetting revenue), expenses related to unexpected equipment repairs and significant costs due to several severe winter storms.

Maritime Real Estate. Maritime Real Estate experienced a surplus of $2.8 million in fiscal year 2005 as a result of increases in rental rates obtained both at the expiration and renewal of prior leases, and upon the achievement of higher and more intensive uses.

Operating revenue and expense figures for the Port Properties stated in this paragraph do not include certain items, particularly expense items such as payments in lieu of taxes, interest and depreciation and amortization, properly allocable to the Port Properties under GAAP.

Bridge

In fiscal year 2005, Revenues from the Bridge were approximately $27.6 million, or approximately 5.9% of the total Revenues of the Authority. Bridge Operating Expenses for fiscal year 2005 were $9.7 million, yielding net revenue from Bridge operations of approximately $17.9 million. Effective April 4, 2004 toll rates were increased, with passenger car tolls increasing to $3.00 (less a $0.50 discount for those using the "Fast Lane" electronic toll collection system). Operating revenue and expense figures for the Bridge operations stated in this paragraph do not include certain items, particularly expense items such as payments in lieu of taxes, interest and depreciation and amortization, properly allocable to the Bridge under GAAP.

Other

Investment Income. Investment income, which decreased from $8.0 million in fiscal year 2003 to $6.6 million in fiscal year 2004, increased to $9.5 million in fiscal year 2005, reflecting higher interest rates, implementation of a new banking structure, increased use of structured investments and other diversification strategies pursued under the Authority's investment policy.

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